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THE
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Economics and Public Policy

Few groups have had so profound an influence on public policy in the last quarter-century as the professional economists. Almost unknown in government circles before this century, the economist has gained for himself an influential voice in national policy-making. There are few government departments that do not employ a number of highly-trained economists, and we are even seeing the establishment of separate departments of economics in many governmental units.

The contribution that has been made to our nation and our economy by this development has been tremendous. There is no question that we are much the better off because of it. At the same time, this development has not been a wholly unmixed blessing.

In particular, two concepts of economic theory have been introduced into our public policy somewhat uncritically and, we believe, need reexamination before they become more deeply entrenched. We refer to the much-maligned concept of the "economic man", and the economic theories relating to competition and monopoly.

Economists are the first to admit that "economic men" exist only in textbooks as a convenient kind of starting-point for theoretical analysis. Unfortunately, while they will thus readily deny the reality of their own creature, government officials sometimes forget these denials when it comes to making public policy. Thus we have introduced into our thinking the curious notion that the only rational behaviour is behaviour that is economically sound. If consumers do not act like economic men, they are "irrational" or at least "uninformed". The Stewart Commission implied at several points in its recent report that consumers who are willing to pay more for various forms of non-price competition like premiums are essentially uninformed and acting irrationally. This kind of assumption is at least open to question, and should surely be subjected to more thorough-going examination than it has had. To state that someone else is uninformed or irrational implies that the speaker is fully informed and knows what rational behaviour should be, a presumption we find most annoying.

The second economic concept that persists in much of our public policy pronouncements—again, in spite of the disavowals of more sophisticated economists—is that of "pure" competition and "pure" monopoly. Although most economists will admit that these cases are non-existent in actual fact, many government officials talk and act as if pure competition were a goal towards which we should constantly be striving. It is now over 25 years since Neil Chamberlain and Joan Robinson called for, and suggested, new lines of economic thought in this area, yet the hard core of classical economics dies hard. We still talk as if agriculture represented the ideal of pure competition towards which we should strive, yet in reality a good many fields of agriculture are much more monopolistic in their structure than most of our processing or distributing industries. Here again, the Stewart Commission seemed more interested in making the facts fit into classical theory than in examining the facts themselves. How else could one accept the comment on the food industries that "Given the structure of the food industries, there is lacking the compulsive mechanism which, in agriculture, translates increased efficiency into lower prices"?

Is this true in fact of the food industries? of agriculture? The Commission offers us no empirical evidence, only classical theory. Surely, in this important field of competition and regulation of industry we could do with more enlightened theory and analysis, backed up by statistical proof and realistic appraisal of the facts of life.

These two concepts, we suggest, have obtained very wide acceptance in matters of public policy, and, to say the least, need a hard and critical examination.

This task will have to be left to the economists themselves. It is one that needs doing, and needs doing badly. Outmoded or inappropriate assumptions unfortunately have a way of being transformed into sacred cows.

D. S. R. Leighton

A STAKE IN CANADA

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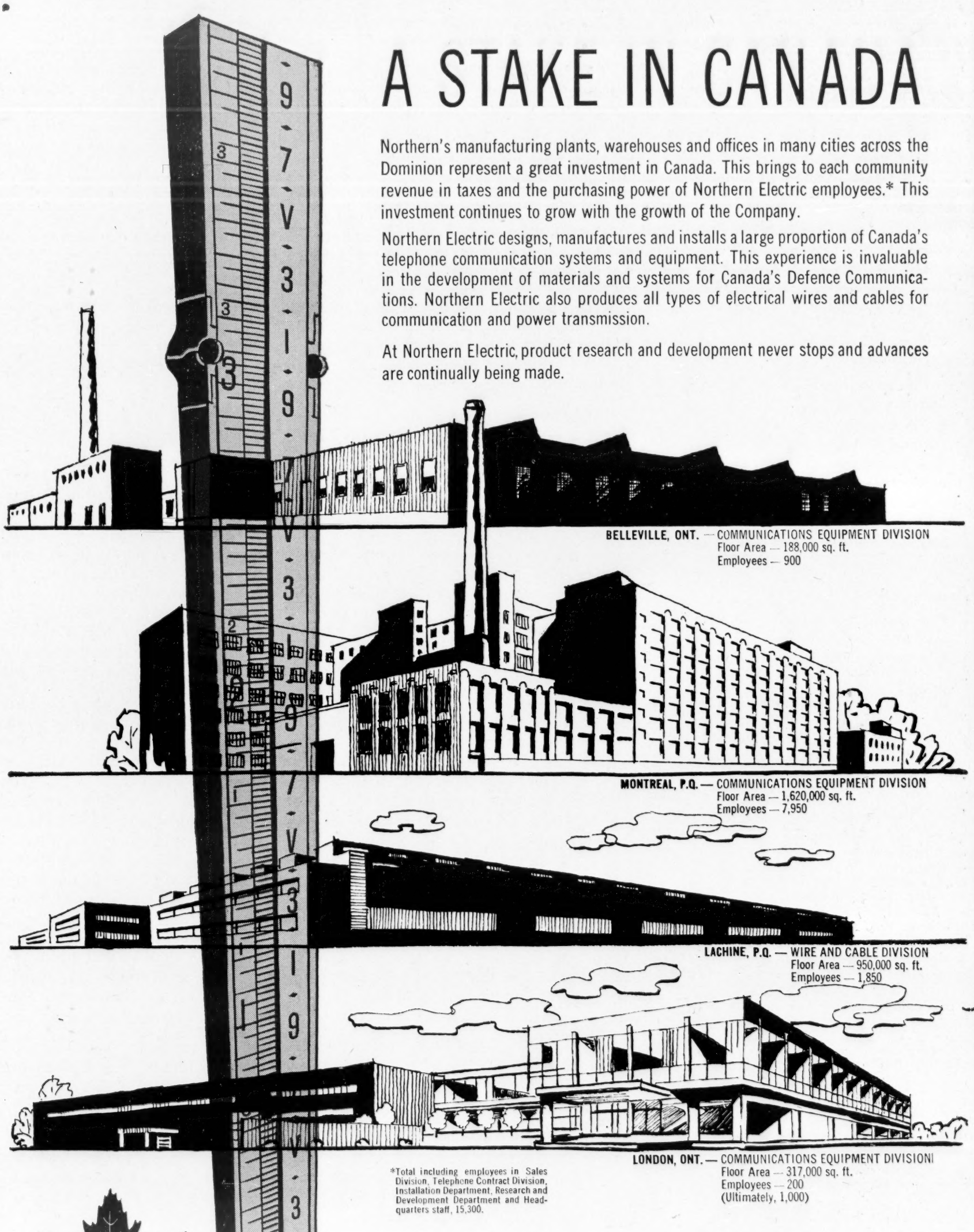

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About Our Authors

Allison V. MacCullough is the president of Allison V. MacCullough Associates, New York City. His business background includes several years with the American Viscose Corporation and the Vick Chemical Company. Since 1948 he has been engaged as an independent Consultant in Organization Planning and Management Development, working with both large and small companies. His consulting practice has involved him in the problems of manufacturing companies, hospitals, hotels, railroads, engineering and market research firms, advertising agencies and associations. He has served as guest lecturer and faculty leader in several university programs for executives and has planned, organized and conducted in-company Seminars for management personnel. Currently, Mr. MacCullough is President of the Westchester County (N.Y.) chapter of the Society for Advancement of Management.

Peter A. Lusztig is a graduate of The University of British Columbia with a Bachelor of Commerce degree in 1954, and a graduate of the University of Western Ontario with a M.B.A. degree in 1955. Mr. Lusztig was employed by the B.C. Electric Company between 1955 and 1957 in the Comptroller's Sub-Division. He has been an instructor in Finance and Insurance at the University of British Columbia between 1957 and June, 1960, when he resigned to continue work on his Ph.D. at U.C.L.A. and Stanford Universities.

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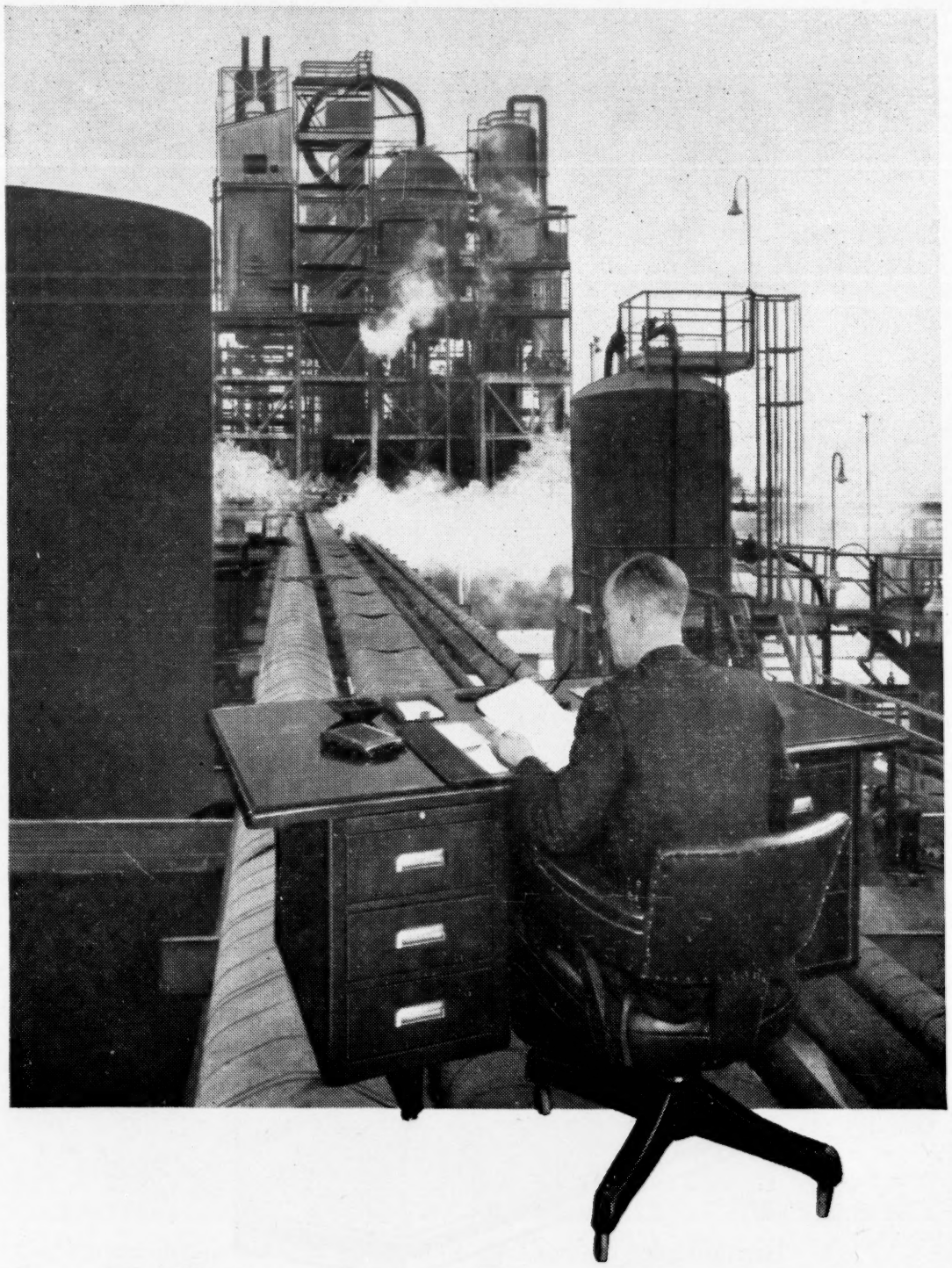

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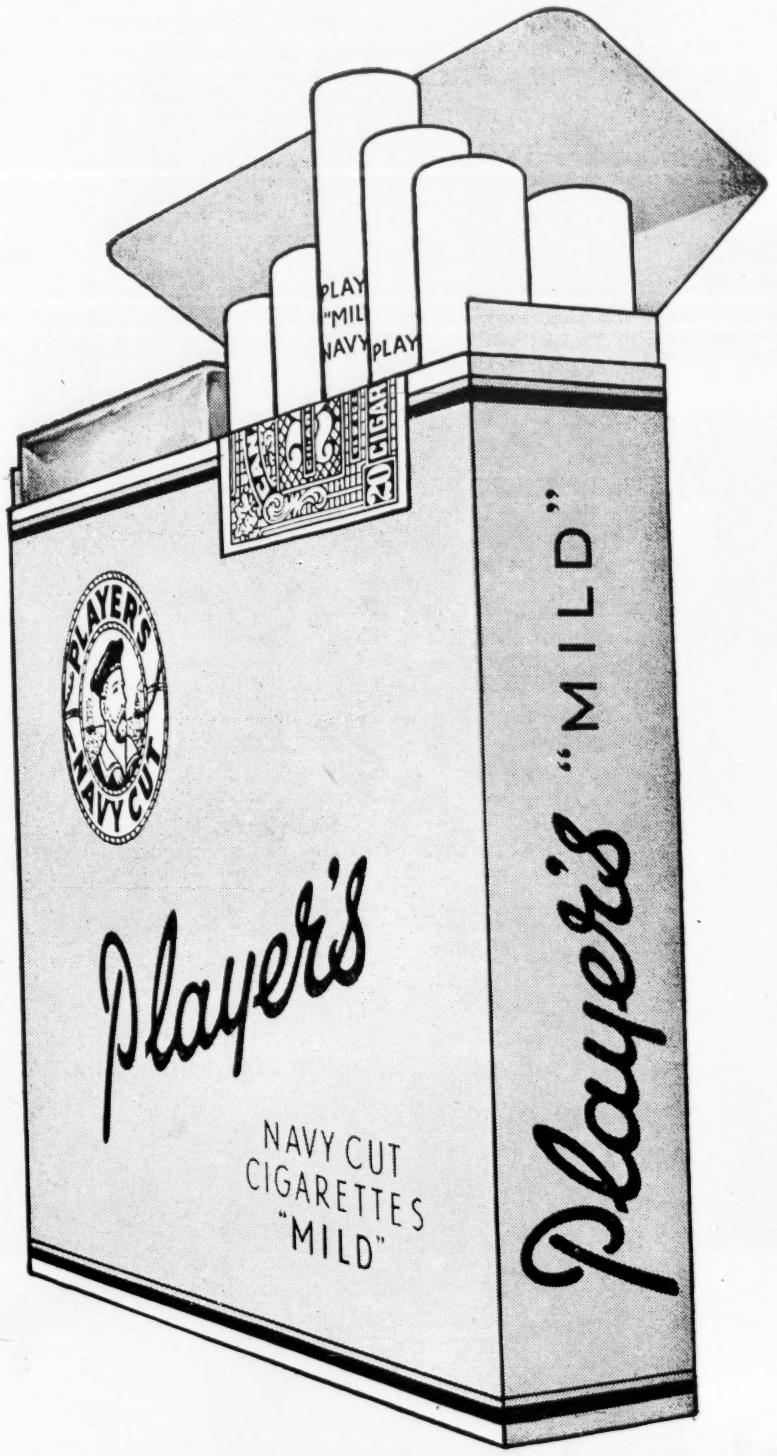

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About Our Authors cont.

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George W. Wilson, Associate Professor of Transportation at Indiana University, received his B. Comm. from Carleton University, M.A. from Kentucky and Ph.D. from Cornell University. Mr. Wilson has been an economist with the Board of Transport Commissioners in Ottawa, Assistant Professor of Economics at Middlebury College, Vermont (1955-57), and is currently on leave from Indiana University, having been granted a one-year fellowship in the Institute of Basic Mathematics for Application to Business at Harvard. Prof. Wilson is author of many articles on a variety of topics, and a frequent contributor to the *Business Quarterly*.

Dwight R. Ladd, is a former editor and contributor to the *Business Quarterly*. He graduated from Brown University, took his M.B.A. and D.B.A. at Harvard University, and was assistant professor of Business Administration there. He is now Associate Professor of Business Administration at the University of Western Ontario, and specializes in the accounting and transportation fields.

David S. R. Leighton, Associate Professor of Business Administration at the University of Western Ontario, is editor of the *Business Quarterly*. A former reporter and editor with The Canadian Press, he obtained his Master's and Doctor's degrees from Harvard University in 1953 and 1956 respectively. He teaches courses in Marketing and Marketing Research at Western.

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Ottawa Letter

PATRICK NICHOLSON

WILL THE SEAWAY PAY?

Is the Seaway likely to be worth its cost of construction and maintenance?

Strictly as an economic proposition, and apart from the prestige value and long-term development prospects, the facts now available from its first experimental and partly unsatisfactory season suggest that the answer is already "Yes".

Seaway revenue is derived from tolls which are paid by all vessels using the Seaway. Even the royal yacht "Britannia", carrying the Queen to the Lakehead last summer, paid the full rate of six cents per registered ton charged on unladen ships. In her case this amounted to $346.14 per transit. Ships carrying cargo must in addition pay 42 cents per ton for bulk shipments such as iron ore or grain, or a more costly 95 cents per ton for general cargo, which normally consists of finished products such as automobiles and crated goods.

The tolls received are divided between Canada and the U.S.A. in the ratio of the total annual cost to each country for operation and maintenance of the canal, plus interest on and amortization of the capital invested. This ratio shows that Canada bears 70.27% of the $471,000,000 construction cost. Last year's results showed that Canada's share of the total cargo carried through the canal was 70.36%.

Of the total through shipment of 20,351,711 tons of cargo, most, or 7,556,432 tons, was between Canadian and U.S. ports, closely followed by 7,273,866 tons between Canadian ports. Shipments between Canadian and overseas ports were only 1,665,095 tons, or about one-third of the much greater use which U.S. exporters and importers made of North America's cheapest freight route.

A U.S. newspaper however, the St. Louis *Post-Dispatch*, has claimed that these advantages of the St. Lawrence Seaway are "largely frustrated at the newly ocean-linked and busy port of Chicago by the excessive cost in time and money of sub-standard, slowed down and featherbedding stevedoring services".

Will the Seaway pay off its enormous construction cost?

The tolls being charged were estimated to cover not only current expenses, but also to liquidate the capital cost in 50 years. This objective was based upon transits of cargo forecast at 25,000,000 tons in the first year, rising steadily by 1968 to 50,000,000 tons, at which level it is expected to stabilize itself for many years to come, finally paying off construction expenses by the year 2008.

The economics of the Seaway are closely bound up in the extent to which the more economical and more suitable giant lake ships are used between lakehead and tidewater. This entails the cost of trans-shipment of overseas cargo at an ocean-going port. In the case of certain cargoes, this may prove more costly than the additional expense of carrying the cargo to its final lakeside destination by ocean freighter. And for certain cargoes—cars are a case in point—the cost of trans-shipment plus the risk of damage by dirt, dust and flying stones to cars carried on a road transporter may make through shipment preferable.

But for bulk cargoes there can be no argument. The lake boat, which has twice the carrying capacity of an ocean freighter of the same length, beam and draft, is much more economical, and easily covers the cost of trans-shipment.

This cost factor was exemplified for many years by the pre-Seaway pattern of the export of grain from our East coast. Wheat was loaded at the Lakehead onto a "Queen" of our inland sea. Those huge boats were specially designed to fit skin-tight into a lock of the standard lake design. Typically 730 feet long, 72 feet in beam, and able to sail over the 27-foot-deep locks, they appear imperceptibly smaller to a bird on the wing than the luxurious Cunard passenger liner "Mauretania".

A "Queen" can carry 800,000 bushels (24,000 tons) of wheat, but it was previously halted by the barrier of the International Rapids at the Ontario port of Prescott, on the upper St. Lawrence. There the wheat had to be trans-shipped from the "Queen", with its crew of 35, into no fewer than ten "little canallers", each manned by 25 men and small enough to sail through the old 14-foot-deep canal, by-passing the rapids.

It cost about 1¼ cents per bushel to trans-ship the grain; it cost obviously about five times as much to ship it over each of those final 122 canal-miles to Montreal than to carry it over each of the 1,128 Great-Lake-and-river miles from the Lakehead.

The saving effected by the construction of the St. Lawrence Seaway, which in effect is merely a deep waterway replacing the shallow International Rapids, is evidenced by the announcement that the Canadian Wheat Board will pay 5⅝ cents per bushel more to the Prairie farmer for his grain.

To ship a bushel of grain from the Lakehead to Montreal now costs about 12 cents—before the Seaway it cost just over 17 cents. In contrast, the rail freight for the same journey is about 40 cents.

Last year's shipments of some 200 million bushels of grain through the Seaway, at a saving of about five cents per bushel shipped in a "Queen", could alone save double the total operating cost of the Seaway.

Washington Letter

J. M. MINIFIE

COMMON MARKET OR OUTER SEVEN?

The prospects which looked so rosy a few months ago for a wider trade relationship between North America and Western Europe have grown pallid. The complexion of events is determined by the increasing danger of an economically schizoid Europe which, strangely enough, United States policy is forwarding. The political objective of uniting France and Germany in an economic weld so tough that it will endure even after the deaths of Chancellor Adenauer and President de Gaulle, blinds Washington to the peril of dividing Europe in another direction. The Administration, to be sure, insists that it is not playing favourites, but almost in the same breath it publicly and emphatically proclaims its preference for the Common Market rather than for the Outer Seven.

Prime Minister MacMillan failed to stir the Administration from its position. True, he did not take it up with the President. But he did take it up, and very thoroughly, with Secretary Herter and Under Secretary Douglas Dillon. He got nowhere. Essentially, what the Prime Minister hoped for was not so much a reversal of the Common Market trend as a reasonable period of time in which to adapt to the new conditions. Shortening the preliminary period by 18 months to July 1, 1960, could be disastrous to the trade of the Outer Seven.

To take the position of Switzerland as an example, Switzerland's main current of trade has been with the Common Market. Its trade with Germany alone is 40% of its entire foreign trade.

The Common Market will create a new tariff based on the average. The high tariff level of a country like France will come down a bit; tariffs for Benelux and Germany will go up. The possibility that the Swiss may have great difficulty in exporting to their traditional German market is causing real concern.

Nobody can really tell, however, what a common tariff towards outsiders and no internal tariff will mean to the Common Market. To what extent will an increase of trade among themselves be at the expense of outside nations? This has led the Common Market authorities to say: "If we find that the consequences would be intolerable, we could make adjustments in hardship cases." It led them to offer a palliative, a sweetener, in the form of a 20% lower tariff base. It was received enthusiastically by the United States. Under Secretary Dillon publicly blessed it several times, notably in the communique following Dr. Adenauer's visit. He made it crystal clear that, although the Common Market was just as dangerous to the United States as to the rest of the Atlantic Community, the U.S. was ready to live with it if the Common Market goes on a liberal trade policy.

It is at this point that the Outer Seven conclude that the Administration's view is hopelessly naive. They are frustrated and angry because they have constantly run up against a stone wall. To all their presentations, the Administration replies "The United States does not want to take sides . . . but we think the Common Market's political objective is so important that we cannot help being in favor of it."

The frustration of the Outer Seven is compounded by their awareness that Germany is by no means of one mind. Dr. Adenauer and the Foreign Ministry impose their will. But German industry has important connections with the outside, and it is not interested in creating difficulties with its best customers.

It has almost reached the point where Dr. Erhard, the Minister of National Economy, has become the champion of the Outer Seven, while the supporters of the Common Market rely on Dr. Adenauer.

The feeling of frustration among the Outer Seven has been enhanced by the increasingly close watch maintained by the United States over its trade with them in order to insure that "strategic goods" imported from America do not find their way to the Soviet Union. This close watch is accompanied by a favorite American theory—that U.S. law can and should run in any country in the world where the United States sees fit that it should. Canada has had experience with this attitude, and protested vehemently, but not too successfully. Swedish businessmen have been discovering recently that the United States Embassy has intensified the questioning to which they must submit if they hope to obtain licenses to import "strategic goods". The effect, they say, is to impose American laws on their businessmen.

YEARS OF PROGRESS

1910 - 1960

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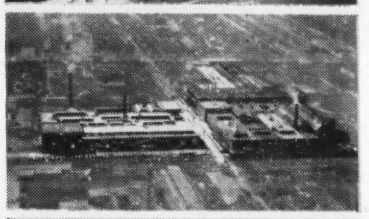
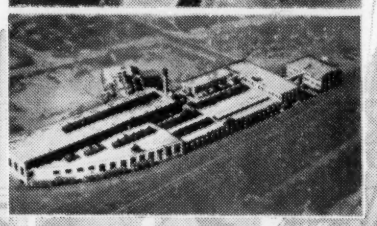
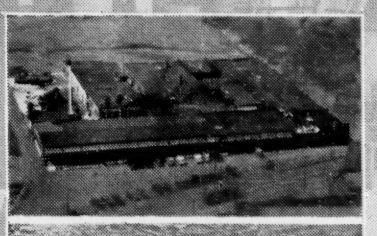


Canada Works

Parkdale Works



Swansea Works



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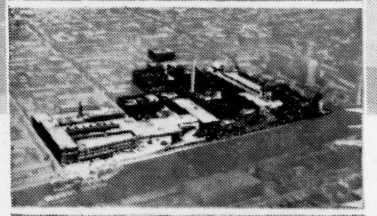

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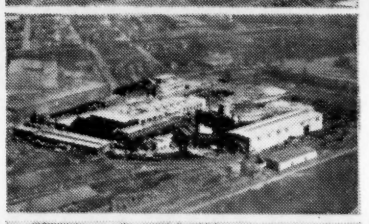
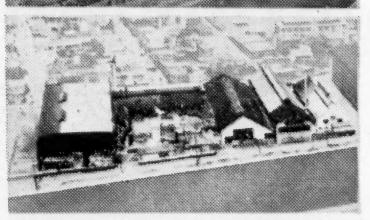


Dominion Works



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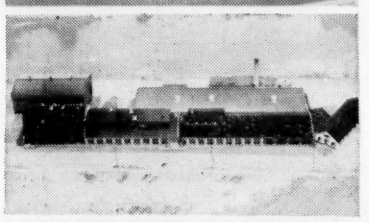
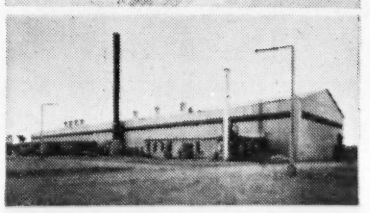


Gananoque Works



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. . . a hand in things to come

In Defense of Decentralization

The trend towards organizational decentralization has recently come under considerable fire from business analysts; cases have been cited where decentralization has not worked out in practice. In the paper that follows, the author points out that these well-publicized failures are more often due to inept implementation rather than to decentralization itself.

A. V. MacCullough

It is apparent that significant segments of American industry are ready to indict the theory of decentralization as ineffective as an organizational arangement. While there is substantial evidence that some companies have had unfortunate experiences with decentralization, it does not constitute an automatic indictment of the theory.

It is not sensible to argue that all companies should attempt decentralization. In some cases there may be many substantial reasons why it is not feasible. And, there will be but little disagreement that large companies which have installed accounting procedures involving the use of expensive electronic data-processing equipment should not centralize such activities even though the organization is generally decentralized. Perhaps there are other functions such as purchasing or labor relations which should not be decentralized.

There are, however, many companies which have attempted managerial decentralization and needlessly have had unpleasant experiences. It is the managements of these companies which are denouncing decentralization who themselves, quite properly, can be charged with malfeasance. Why is this true? Where have they erred? In many cases such companies jumped onto the decentralization band-wagon without understanding the nature of decentralization and without insuring that managers at all levels understood the concept, and their respective roles and skills required in its implementation.

An illustration may help. Admittedly, this is an extreme case. A few years ago the president of a holding company headed an organization with some 12 or 15 subsidiaries on which he held a tight rein. This was strictly a centralized operation. Facing the prospect of three or more acquisitions in the near future, he became intrigued with the idea of decentralization. It sounded good to him because he had heard that under this theory he could enjoy much more freedom. Without discussing his intentions with even his closest associates, he announced at a meeting of the corporate officials and all his general managers, that as of that very moment the entire company was decentralized! He told each of the general managers to run his company in almost an autonomous manner.

Of course, in this instance, decentralization was a failure. In fact, it was decentralization in name only. As a result the president was forced to continue his personal direction of each of the companies and today he is quite vocal in his denunciation of decentralization. Let's examine this case to determine where he erred in omission and commission because it is somewhat typical of many situations.

ORGANIZATION

First, the president failed to see that important changes in position requirements occur when the company is converted to a decentralized type of operation. Even though each general manager retained the same title, the same office, the same salary and the same reporting relationship, his position and responsibilities were substantially changed. If the president had tried to write the specifications of the re-constituted position of general manager he might have seen an amazing change and a radical difference between the specifications of the old and the new position. And the same sort of alteration might have

been required in many minor positions. A man might be a competent manager in a centralized operation but a miserable failure in a decentralized operation because of these changed requirements.

POLICY

It is certainly apparent that the president failed to see that decentralization means decentralization of decision-making to lower levels in the organization and all that that implies. He was expecting that the general managers would operate in accord with company policies with which he alone had been completely familiar. He provided them with no direct policy guidance, with the result that frequently important questions of a repetitive nature continued to be sent top-side for his attention.

DELEGATION

This president also appeared to have no understanding of the nature of delegation. He did not know how to delegate, what to delegate, nor when to delegate. Some of the general managers, being cautious and conservative, were reluctant to make strategic decisions and continued to refer important problems to the president. They were not only lacking in courage but also in the skills of decision-making. They, too, did not understand the nature of decentralization and their role in it. As a result, the president lost faith in them; yet, it was his fault, because he had never trained or tested them. To the extent that an individual avoids responsibility for any part of his position, it could be claimed that decentralization and delegation have not worked and that it is ineffective.

Other general managers tried to operate on their own as they thought that they were supposed to do and were fearfully reluctant to refer anything top-side. In respect to these general managers, the president ultimately developed a fear that they, in "going off on their own," were acting too independently and sometimes wrongly. He felt a strong desire to continually "look over the shoulder" of each man and at one time expressed the thought that perhaps he was running away from his presidential responsibilities. He failed to see that delegation does not mean abdication. In short, he did not like the way that either type of general manager was operating.

The "other side of the coin" revealed that the general managers were not happy with their new arrangements. They had not been provided with objectives, policy statements, performance standards for their divisions or any training for their revised responsibilities. They did not know how far they could or should go on their own, for they were uninformed about the characteristics of their new positions or how much authority they had. They felt a decreased sense of security.

CONTROLS

The fourth major deficiency in this situation was the lack of adequate management controls. This leads to the thought that the "reach of an executive" depends on the adequacy of controls. We have come to learn that we cannot decentralize without very much better control of objectives, much better control of standards, and better control of performance than most centralized businesses have ever heard of. Decentralization frequently requires a type of control unlike those used in a centralized operation.

Decentralization requires that we establish a system that operates against standards, objectives and goals, rather than against personal supervision. Instead of thinking of controls as a useful management tool, this president subscribed to two rather unfortunate assumptions. He had not disabused himself of the notion that controlling is the exclusive role of the controller as many of us have traditionally and thoughtlessly believed. He was blind to the important concept that management controls are part of *every manager's* job and that financial controls are only one of several type of management controls.

ACCEPTANCE OF CONTROLS

The president was operating also under an additional handicap, for he assumed that subordinates resent and resist controls. This is an assumption that has intimidated executives for a long time. This assumption has been held as the ultimate truth for so long that it usually goes unchallenged. Any boss, even with a minimum of persuasive powers, can present a sound concept of controls which will be welcomed by his associates. First, we must recognize that subordinates, being human, are selfish creatures. They will be appealed to by any process which serves their personal objectives. In respect to the job, what is it that these people want? They want to know where the business is going; what its objectives and goals may be. They want to know the plans for the company, their division or their department so that they may detect when they are deviating from the plans. We must admit that this appeals to their self-interest. Then comes the matter of standards! Who doesn't want to know exactly what is expected of him? Good standards, objectively applied as a measure of a subordinate's performance, are most likely to be accepted by the subordinate as fair, reasonable and as a challenge. Unlike the story of the lamp post and the drunk, good standards provide the subordinate with both light and support, as well as encouragement.

There is much evidence that subordinates value and appreciate controls because, when properly conceived and operated, controls enhance one's chances

of success and recognition. Instead of being restrictive, autocratic and bureaucratic, proper controls provide freedom—they are not inhibitive—they encourage initiative at the lower levels of the organization where the real profits are made. Perhaps the greatest advantage of "Management by Objectives" is that it makes it possible for a manager to control his own performance. He can detect deviations from a predetermined course. Self-control means stronger motivation; a desire to do his best, rather than just get by. It means higher performance goals and broader vision. To control his own performance, a manager needs to know more than just what his goals are. He must be able to measure his performance and results against the goal. These goals need not be rigidly quantitative or exact, but they must be understandable and rational.

Especially in a decentralized operation is there a tendency to think—and talk—about profit centres. Each unit or component of a business is often expected to "stand on its own feet," to make a substantial profit as a means of justifying its existence. This is but an extension of the simple thought that each employee must make a substantial contribution to company profitability. But, this type of thinking is more suited to the individual in the short range view than it is to a component of the business. Yet we have those corporation officials who insist that immediately after decentralization, each segment of the enterprise must immediately show a profit. The luxury of long-term planning is often denied the management of a component in a decentralized company.

ACCOUNTING "STRAIGHT-JACKETS"

Judgement of the success of a division within a decentralized type of organization is often made on the basis of a 12-month cycle, as was the case in this particular company. Officials of an autonomous unit of a business are urged to think "BIG". They are invited to think policy-wise—in terms of strategic decisions, rather than in terms of tactical decisions only. Yet, at the same time, such officials find themselves under the unholy influence of a traditional accounting concept which has a time fixation of 12 months. There appears to be something sacred and inviolate about the 12-month period in the minds of many executives. Just why this is true is not readily apparent. The obvious excuses do not pardon the crime. Perhaps the answer should be left to business psychologists, the sociologist, and the historian. But there never was a more devastating device that precludes long-range planning than this hocus-pocus, mysterious, and arbitrary establishment of the 12-month cycle as a period for measurement of achievement. Pity the poor general manager who must sacrifice long-range profitability on the altar of tradition for the sake of showing an immediate, though minor, profit before the year is up.

Even though ordinary horse-sense—sometimes admonitions from headquarters—tells him to plan long-range, he does not dare to do so because he knows that his tenure in office depends on showing a profit within the confines of the sacrosanct 12-month period. It is often impossible to build a firm foundation for later solid growth within such a short period; much time and money may be required to do so. Yet the personal security of the manager is related to his ability to show a profit in each 12-month period. It is as short-sighted as measuring a salesman's performance on a day-to-day basis. An example of this type of situation may be helpful. In many instances all product research and development is a corporate responsibility and is financed at the corporate level. The results of its R. & D. are turned over to general managers to produce and sell. In many cases with a redesigned product, or with a new product, considerable market research is clearly indicated. While such research is not as costly as product research and development, nevertheless, it can easily amount to $50,000 or even 10 times this amount. Often these funds have to come out of the operating revenues of the division, and are not provided for out of corporate funds as was the financing of product R. & D. This arrangement is often unfortunate, for it sharply reduces the profitability of the decentralized divisional operation for the year in which the expenditure occurs. The general manager is likely to find himself in a dilemma. His good judgment clearly indicates the need for such market research and development, yet the compulsion to show a profit in each yearly accounting period is paramount, for the personal security of the general manager is often related to his ability to show a profit in each 12-month period.

Here is shown the fallacy of the thinking in many a decentralized operation—that each unit of the business must make a substantial profit each year—the "profit-centre" idea. The division or component in a decentralized operation that fails to show a satisfactory profit for a year or two, due to non-repetitive expenditures—for instance, for equipment or marketing research—is apt to be designated as the "weak sister" of the outfit. Failure to make a satisfactory profit sometimes wrongfully constitutes an indictment of decentralization.

THE ROLE OF HEADQUARTERS STAFF

Another point of irritation—one that often itches terribly—is that of the role of the headquarters staff. There are many companies under centralized man-

agement which have a headquarters staff composed of such line positions as chief engineer, chief chemist, chief accountant or controller, and directors of labor relations, purchasing or manufacturing. In most cases these men have real authority in their respective areas in the numerous plants of the company. When decentralization occurs, the revised roles of these headquarters people are frequently not re-defined to anyone's satisfaction. Are they "line" or "staff"? Have they the right to order or to advise? And, if their advice is not accepted, what are the consequences? Here is the perfect set-up for a mud-slinging contest and the basis of political internecine warfare within the company.

In such cases the newly-decentralized company professes to order complete independence to the several units of the business. However, there often seems to be great difficulty in cutting the corporate umbilical cord. It reminds one of the untenable situation when a newly-married couple, living close by the parents, may rarely make decisions on their own or live their own lives because of the over-powering paternalism or concern of the "old folks". The wise parent, or in this case, the parent company, must show an admirable degree of restraint. The desirable attitude of the parent company is not easy to define. Certainly it must look for long-range results. Like the wise parents, it must be prepared to offer advice when solicited and also to help finance a venture when the prospects of paying off—grandchildren or otherwise —may be indicated.

Corporate senility becomes evident in a situation of this type for there often appears a lack of courage or intelligence adequate to resolve the difficulties. Again, we have the presumed basis of an indictment of decentralization.

In other cases, decentralization has appeared to fail when the president is domineering and dogmatic. Sometimes the founder of a business, anticipating his own retirement and realizing that he has no heirs able and interested in taking over the business, is appealed to by the thought that managerial decentralization may solve his problem. In his failure to have an heir or a counterpart of himself, he has neglected to develop a qualified successor—someone capable of running the entire enterprise—so he hits on the notion that perhaps "smaller" men may sucessfully run segments of the business.

Even when capable men have been under the strong and continuing domination of an autocrat for years, it is unlikely that they will be very effective when placed on their own. They are apt to miss the strong leadership and the unifying force provided by the president. Their natural desire to succeeed may result in a ruinous political struggle and what was once an integrated organization team becomes a loosely knit series of alliances. Criticisms of decentralization have also come from companies that have purchased other businesses. The former management is retained and even though it is provided with general statements of policy and direction, it is too much to expect that the new acquisition is going to act like a member of the family immediately or without considerable indoctrination. The loss of corporate identity often has a disquieting effect on the officials of the new acquisition. Even though they may have a strong desire to do exactly what is wanted and in an approved manner, it often requires considerable time to re-adjust to the new relationships. This could be compared to the adoption by a family of a couple of teenagers. The desire of the family to welcome them into the home is sincere and as great as that of the youngsters to co-operate and fit into the mores of the family. Yet it is inevitable that both sides must be tolerant and indulge in considerable "give and take" before the completely harmonious working relationship is developed.

It could be claimed that "decentralization" is an attitude, a state of mind, a philosophy. Perhaps that is correct. But, it is more than that. Like the parent of a teenager, the company that has not prepared its progeny for independence should never attempt decentralization, any more than the parent would encourage the child to undertake the responsibilities of marriage until it has learned how to live on its own.

SUMMARY AND CONCLUSIONS

In the nature of a summary, we have the situation of a parent company which is pushing the children out of the nest before they have learned to fly. And, that is an indictment of the parent company and not of decentralization.

Decentralization

- — will work if real authority is delegated;
- — will work only if adequate responsibility is freely accepted;
- — can be achieved when top executives understand that delegated authority cannot also be retained;
- — requires that business objectives, policies, organization structure, and standards be known and comprehended by all;
- — requires confidence in subordinates;
- — places decision-making at the lowest possible level; and
- — requires of headquarters people a sense of proportion, time and timing and the quality of patience.

CANADIAN CORPORATION DIRECTORS

— *a profile*

Who are the men who hold corporate directorships in Canada? How do boards of directors operate in this country? These and other questions are covered in this report on a research study conducted by the University of British Columbia.

PETER A. LUSZTIG

The typical corporate director in Canada is a Canadian citizen approaching 60 years of age. He holds, in all probability, a total of nine directorships and is thus called upon to attend some 60 meetings a year. For his troubles the director, usually a prominent and respected figure, will receive annual remunerations totalling well over $10,000. The boards on which he serves will include 10 others, four of whom are likely to be officer-directors.

The highest level of management of every corporation is made up of a group known as the Board of Directors. Considerable work has already been done in the United Sates to determine both characteristics and functions of directors, with some results of research in these areas being published.[1] This paper will summarize studies conducted under the author at the University of British Columbia which were designed to gain detailed information about Canadian boards, and will also attempt, where possible, a comparison with their U.S. counterpart.

The method used to obtain required data from Canadian corporations was a mail questionnaire. This questionnaire was sent to secretaries of selected companies in the manufacturing and extractive industries as well as financial institutions and public utilities. Within the above industry classifications an attempt was made to differentiate between companies on the basis of the value of assets shown on their respective balance sheets.

[1]See for example J. C. Baker, *Directors and Their Functions*. (Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1945).

M. T. Copeland and A. R. Towl, *The Board of Directors and Business Management*. (Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1947).

J. H. Watson, III, *The Corporate Directorship*. Studies in Business Policy, No. 63. (New York: National Industrial Conference Board, Inc., 1953).

SIZE OF BOARDS

The first question was designed in such a way as to provide information on both the number of directors making up the surveyed firm's board and their ages. As shown in Table I the size of the boards of directors varies with the size of the company in terms of assets. In the small corporations (under $10 million), the range was from five to 12 members, the mode appeared to be seven, while the average corporation studied has eight directors. In the case of larger corporations there was no distinguishable mode, but a greater range was apparent, as was the tendency to larger boards. In the case of surveyed corporations with assets of over $100 million, boards numbered anywhere from seven to 34 directors. The mode was 12 and the average board was composed of 13 directors. The weighted average of all Canadian companies analysed was just over 10 members per board.

In the United States there have been quite a few studies concerned with the size of boards of directors. A more comprehensive one was undertaken in 1953

TABLE I - SIZE OF BOARDS OF COMPANIES SURVEYED

Assets in millions of Dollars	Number of Directors											Average Number on Board
	5	6	7	8	9	10	11	12	13	14	Over 15	
Under 10	3	-	7	4	2	2	-	3	-	-	-	8
10 - 39	-	-	4	1	4	2	2	1	2	-	-	9
40 - 100	-	-	1	1	3	-	2	2	-	2	1	11
Over 100	-	-	3	-	3	3	4	6	2	2	6	13

by the National Industrial Conference Board.[2] In this study, the average number of members on a board varied from six in companies with assets of less than $1,000,000, to 12 in the case of companies with assets of over 50 million dollars. Some American writers have suggested that between five and 12 directors on a board is likely to prove the most effective number.[3] On the strength of these and other sources it appears that Canadian boards are slightly smaller than their U.S. counterpart.

AGES OF DIRECTORS

The ages of the directors of corporations surveyed are presented in Table II. In total, over 75% are aged 50 or older. Interestingly enough, two very young directors were reported by two large companies, and the emphasis on youth is more noticeable in the case of "inside" boards.

TABLE II AGES OF DIRECTORS

Assets in Millions of Dollars	Ages of Directors					
	20-29	30-39	40-49	50-59	60-60	70 and Over
Under 10	-	11	29	37	48	21
10 - 39	-	9	27	40	39	15
40 - 100	-	12	27	50	36	10
Over 100	2	2	67	164	126	70

There has been some criticism of boards of directors on the ground that age has some correlation with the activity of board members.[4] It is suggested that younger men would improve the working of this high level of management. In the United States, over the years, the trend has been to place younger men on boards with the result that the average age of a director is now in the middle fifties.[5] While the average age of Canadian directors cannot be accurately ascertained from this study, it woul nevertheless appear that the Canadian is a few years older than his American counterpart.

COMPOSITION OF BOARDS

The composition of any board is more vital to the welfare of a corporation and quality of its management than is its mere size. An attempt was made through the questionnaire to determine both the composition of Canadian boards and the thinking behind the existing pattern. In the United States, research indicated that on the average, almost 36% of all directors were company officers.[6] There was however a decided tendency to find more "outside" directors on the boards of larger concerns. These were likely to be individuals who could be termed "prominent business men" or "prominent figures in the community".[7]

The situation in Canada as evidenced by this study revealed no startling differences from the U.S. pattern. Most corporations surveyed had an investment dealer on their board, with the larger companies going so far as to have two or three investment houses represented. Lawyers and consultants with specialized knowledge were well represented. It was found that more than half the directors of the larger corporations were individuals considered to be prominent in business or in the community. Close to 85% of the directors of the concerns questioned were Canadian citizens, who, surprisingly enough, were even to be found in strength on boards of the subsidiaries of American corporations. Most foreign directors could be typified as either large stockholders in their own right, or representing substantial blocks of stock.

TABLE III CORPORATE DIRECTORS CLASSIFIED BY INTERESTS AND OCCUPATIONS*

Classification	Number of Directors Fitting Classification
Prominent businessman	424
Owns or represents substantial stock	284
Officer of Company	269
Prominent community figure	164
Investment dealer or counsel	72
Legal counsel	64
Consultant with specialized knowledge	53
Retired officer of Company	44
Educator	3
Others	31

*Some directors have, where necessary, been included in more than one classification.

It was found, through an analysis of replies received, that "outside" directors do not provide the leadership at board meetings. In almost half the cases studied leadership stemmed solely from officer-directors, while in the remaining situations boards

[2] J. H. Watson, *ibid.*

[3] For example R. A. Gordon, *Business Leadership in the large Corporation*, Washington: (Brookings Institution, 1945). Also G. E. Bates, "The Boards of Directors", *Harvard Business Review,* vol. 19, (October, 1940), p. 86.

[4] J. Martindell, *The Scientific Appraisal of Management,* (New York: Harper & Brothers, 1950), pp. 11 ff.

[5] H. Koontz and C. O'Donnell, *Principles of Management,* McGraw-Hill Book Company Inc. 1959, p. 274-5.

[6] R. A. Gordon, *op. cit.,* p. 119.

[7] P. W. Dickson, *Compensation and Duties of Corporate Directors,* Studies in Business Policy, No. 16, (New York: National Industrial Conference Board, Inc., 1946).

found their inspiration from both "inside" and "outside" members. These findings approximate U.S. results.

A study made in the United States by J. C. Baker demonstrated four basic variations in the ways boards carry out their function: the decision-making approach, decision-confirming, counselling, and the reviewing approach.[8] Staying with the above classifications, it would appear that almost all Canadian boards are active in decision-making, not being content to merely confirm, counsel or review. A ready explanation for this might be the number of large stockholders and management personnel found on boards today, and the greater likelihood of self-perpetuation on predominantly "inside" boards.

Remuneration

Looking at the remuneration of these directors who were not in the direct employ of the corporation, it is quite evident that directors in Canada are better paid than those in the United States, but poorly paid in comparison to the professional English directors, who receive a much higher fee.[9] As might be expected, the larger the company, the greater the compensation offered to its directors. It was found that 65% of surveyed companies with assets of over $10 million paid their directors a remuneration of over $1,000 per annum. The average annual compensation per director based on all companies analyzed regardless of size is just over $1,500.

Table *IV*

Remuneration of Canadian Directors (Non-employee), By Companies

Assets in Millions of Dollars	Annual Remuneration in Dollars 1-500	501-1000	1001-2000	2001-4000	Over 4000	No Remuneration
Under 10	13	3	2	1	2	-
10-39	3	3	10	1	-	-
40-100	2	-	5	3	-	2
Over 100	3	1	9	11	3	7
Total No. of Co's.	21	7	26	16	5	9

In looking at the number of directors' meetings held (including emergency sessions), very few of the surveyed boards met more than 12 times a year, though one company with a completely "inside" board reported an astounding 140 meetings per year. The number of meetings most frequently reported was five, six and 12 per annum. An analysis of the returns indicates that, on the average, Canadian directors are paid slightly under $200 per meeting. Though the average director is an extremely busy man, it is still exceptional to see him holding large numbers of directorships. Four out of every five directors in Canada sit on more than one board; they do in fact serve on an average of nine boards. Directors of the large corporations seemed more active, with several holding more than 20 directorships. The average figures cited approximate those reported in several U.S. studies.

Table V

Number of Directorships Held by Canadian Directors

Assets in Millions of Dollars	No. of Canadian Directors Reporting	Directors Serving on Other Boards	Total No. of Corporations	Average No. of Directorships Held
Under 10	209	124	953	6.9
10 - 39	270	152	1125	7.4
40 - 100	197	92	827	9.0
Over 100	453	240	2369	9.9

In various industries one was able to pick out a group or groups of directors that seemed to dominate, to an extent not found in the U.S., particularly in food products and food merchandising, and in the mining industry. Some men dominate directorships in more than one industry.

The Chartered Banks presented a somewhat unusual pattern. Lord Keynes, in a letter to Alfred Marshall some 45 years ago, opined that bank directors are very often appointed not on grounds of capacity but "because they are able, through their business connections, to bring to the bank a certain class of business".[10] Much of what Keynes first charged a half century ago may well apply in Canada today. A look at the four largest banks showed that their boards average 44 persons. Of these directors, those who were active on other boards averaged 12 directorships, and analysis revealed that in the neighbourhood of 1,000 companies had direct connections with the four banks as a result. The most outstanding company in this regard was the St. Lawrence Corporation, which had on its board representatives from all the banks surveyed.

In drawing conclusions from the study it can be said that there are striking similarities between Canadian boards and directors, and their American counterparts. Where differences were significant, explanations were readily apparent in statutes, the relative sizes of corporations, and the infancy and somewhat conservative growth of the Canadian economy.

[8] J. C. Baker, *op. cit.*, p. 134.

[9] H. Koontz and C. O'Donnell, *op. cit.*, p. 269.

[10] S. Harris, *John Maynard Keynes*, (New York: Charles Scribner's Sons, Ltd., 1955), p. 72.

Organizing for Efficient Marketing

The so-called "brand manager" system of organization has enjoyed growing popularity in large, multi-product businesses. The author, marketing manager at Lever Brothers Limited, describes the logics and nature of this form of marketing organization.

LOGAN R. BROWN

At the outset I would like to quote from an editorial that recently appeared in the magazine, *Printer's Ink*:

"The Marketing concept is no longer thought of as a magic formula but rather as a *tool of organization* that forces variously talented men to work together, and it helps them to so orient their work that everything they do must start with consumer needs and end with consumer satisfaction."

This statement establishes the relationship of the much-talked-about "Marketing concept" and "organization" far better than I could hope. Effective marketing results from efficient marketing organization.

What do we mean by organization? I think Professor Walter Thompson, Associate Dean of the School of Business Administration, University of Western Ontraio, very ably points out the extremes of organization when he states:

"Organizations vary from the loosest possible structure—with people thrown into situations—to meticulous, formal organization structures. In the former, there is a vague hope that things will work out; in the latter there is often the impossible search for men to fit the slots that have been laid out".

It is my opinion that we can broadly define organization as the vehicle by which a business achieves effective actions through human resources. When we are discussing organization, then, we are really talking about people and their relationship. Therefore, the characteristics of efficient organization must be related to the effective motivation of people.

CHARACTERISTICS OF EFFICIENT ORGANIZATION

What are these characteristics? To discuss this subject in its entirety would take nearly a series of articles. Therefore, I have boiled down my paper to what I term the three key "C's" to efficient organization. I have selected these three characteristics because of their important bearing on the organizational structure we have seen developing in the mass volume consumer packaged goods industry over the last few years.

I have chosen as my first "C"—*capability*. This characteristic is, of course, the foundation of any efficient organization. It involves sound methods of personnel selection and well planned executive development programs. This is, I believe, of obvious importance.

As my second "C", I propose *concentration*. By this I mean establishing an organization structure that provides the time for capable people to concentrate on the problems at hand. Expecting one man to shoulder a multitude of responsibilities leads to such mental frustration that successful results become impossible, regardless of capability. The ideal load of responsibility is, I believe, one which is just beyond easy reach. The challenge is there, creating mental alertness but minus frustration.

The third "C" is, in my opinion, *coordination*. Business to day is far too complex for the "one-man show". Therefore, team work is of the essence in the successful business operation of today. As a result, team leaders or coordinators with exceptional administrative skills are required in any efficient organization. One word of caution, however; I do not mean

by this reference to team work that there is no room for the imaginative individualist. On the contrary, I feel this kind of initiative and independence of thought is absolutely essential to successful team results.

Summarizing these characteristics, we have in an efficient organization for marketing—*capable* people *concentrating* in a *coordinated* manner on marketing problems. Let's examine how this is carried out in a large consumer packaged goods company. In this connection, I will be confining my comments mainly to the line marketing organization with little reference to staff activities.

THE MARKETING ORGANIZATION

To aid in discussing this question, let's first set up a line marketing organization of the type found in most large consumer packaged goods companies.

MARKETING DIRECTOR (or V/P Marketing)
|
Marketing Managers (or Group Product Mgrs.)
|
Brand Managers (or Product Managers)
|
Assistant Brand Managers
|
Marketing Trainees

I have purposely kept this chart simple. There are, of course, a number of other departments within the company which can and frequently do report to the Marketing Director. For example, the General Sales Manager would naturally report to the Marketing Director. Other departments such as the Public Relations Department, and the Marketing Research Department, could also report to the Marketing Director.

Before going any further in discussing the Marketing Department let's list other company divisions which are absolutely essential in any business operation:

- Research and Product Development Laboratory
- Production
- Commercial (or Financial)
- Transportation and Supply (Purchasing)
- Legal
- and others depending on the needs of a particular company, but I believe the above list is pretty complete.

THE COORDINATION PROBLEM

Now, the question is: How do you effectively coordinate the activities of these various departments in a company with multi-brand marketing responsibilities? As a solution to this question has come the much discussed Marketing Department in which the key man controlling the ultimate success of its operation is the Brand or Product manager. His influence over the quality of results emanating from the Marketing Department is similar to the importance of able selesmen in a selling team. Who can deny that sales results depend in the final analysis on efficient salesmen—the men on the "firing line?" So to the "point man" in the Marketing Department is the Brand Manager.

What are the responsibilities of a Brand Manager? Just why is his position such a key one in the Marketing Department? Who is he and what does he do?

First of all he is a *capable* man—he has proved himself either in an on-the-job training program or in an assistant's capacity or in some other section of the business to be a *planner* rather than a "doer"— person with initiative, enthusiasm, integrity, sound judgment based on interpreting facts of situations, a hard worker and a facility for understanding and getting along with others.

Returning to our earlier mentioned characteristic for efficient orgnization, that is permitting *concentration,* he is responsible for, at the most, two brands—plenty to do, but not so much that he is frustrated in the effective carrying-out of his responsibilities.

Specifically, then, what problems might he be exposed to in the course of a week's activity?

- meeting with the advertising agency on creative advertising strategy—he is responsible for directing the advertising agency on all phases of its activity and interpreting for the agency company policy as it is determined for the brand.
- meeting with the Product Development Laboratory to discuss ways and means of improving brand performance.
- meeting with Production to discuss plant output and future scheduling.
- meeting with the Commercial Division to determine the up-to-date position on brand advertising expenditure versus budget.
- meeting with Purchasing to obtain display material.
- meeting with the Legal Department to discuss trade mark questions or the legality of a contest promotion idea.
- meeting with Sales to discuss sales estimates, or promotional strategy.
- meeting with the Marketing Research Department to discuss a consumer research project or advertising research study.

These are a few of the broad problems which could face a brand manager during the activities of a week. Of course, there are many detailed questions within each area mentioned. All of them demand prior thought and planning on the part of the brand manager. He must handle each detail within the framework of his end objective, which must be a well-integrated, effective brand marketing operation.

The Brand Manager's duties can be best related to those of a General Manager; his responsibility and authority are similar in scope. He runs a business within a business. It is through his presence in the corporate organization that the strengths of a "one-man operation" are achieved in a multi-brand company.

ACHIEVING COORDINATION

Now, let's move on to the third principle of efficient organization mentioned previously—*coordination.* This element of coordination is absolutely essential to effective corporate planning and the end result of such activity, corporate profit. A coordinated effort is particularly important when common selling and production facilities are used for many brands.

The first organizational step towards achieving coordination is the Marketing Manager, who is responsible for the activities of a division within the company. The final step is the Marketing Director who is responsible for coordinating the entire marketing activities of the company.

Apart from coordinating brand activities there are two other broad areas of responsibility facing the Marketing Manager and the Marketing Director.

a. At their respective levels they add experience and further judgment to brand marketing problems. In addition, they should have sufficient time available to concentrate on long-term Division and Corporate planning.

b. Secondly, they have *purposeful* executive development of those working for them as an important area of responsibility. Too often this responsibility is left to chance. The attitude, subconscious as it may be, of—"oh! those working for me will develop through their association with me" will *not* work. How much time do you spend pinpointing the strengths and weakness of your subordinates and *then* determining a working relationship which will develop your subordinates into well balanced marketing executives? Too frequently the senior manager just accepts the fact that nobody can or could be expected to do the job as well as he used to do it. Surely *purposeful* executive development is a prime responsibility of all senior marketing managers.

Let us look for a moment at this marketing organization in action through actually processing an idea. Assume the idea involves a factory pack, and it is now the responsibility of the brand manager to develop it. What does he do?

- initial discussions with the Marketing Manager to get his general reaction to it. Is there value to processing it further?
- discussion with Sales to obtain their reaction to it in terms of the problems and opportunities it presents.
- discussions with the Advertising Agency as a further check on the merit of the idea; they are part of the brand marketing team.
- obtain costs from the Accounting Department.
- discussions with Production on technical problems, if any, and its plant scheduling.
- discussions with Purchasing on the acquisition of any special packing material and display material.
- discussions with Marketing Research if it is decided that a follow-up measurement of its effectiveness is desired.
- discussions with the Marketing Director for final approval.

This simple example illustrates how the three characteristics of an efficient marketing organization are met with the structure outlined.

1. A *capable* Brand Manager is absolutely essential in order to successfully follow through on marketing problems.
2. *Concentration* on marketing problems at three levels of management—Brand Manager, Marketing Manager and finally the Marketing Director.
3. *Coordination* of marketing activities at two levels of management—Marketing Manager and Marketing Director.

The fact that a great many multi-brand consumer packaged goods companies are adopting marketing organizations of this type is indicative of its worth in effectively meeting the complex marketing conditions of today. With a marketing organization of this type a company is efficiently gearing itself to "force variously talented men to work together and to so orient their work that everything they do starts with consumer needs and ends with consumer satisfaction"—to quote again from *Printer's Ink.*

My final comments with regard to marketing organization are as follows. First, it is vital to forecast and plan marketing personnel requirements just as you would sales. It is necessary to have a *planned* program of marketing management training.

From my knowledge and association with the marketing field, I would say too many companies are operating on a hand-to-mouth basis. Organizing for efficient marketing is as dynamic as the markets in which a company is competitively engaged. Yet too few companies are planning for their marketing organization as they are planning for the products they sell. Each marketing executive should ask himself: what is my company doing now to ensure an adequate supply of capable marketing management for the future?

Talented young people in large numbers will be required for the marketing profession and the profession must efficiently organize itself to fulfill this demand. I submit that we all have a personal stake and responsibility to ensure that the marketing profession effectively meets this challenge.

RADIOACTIVE FALLOUT MEANS MASS FRATRICIDE

Five prominent American, Japanese and French physicists, two of them Nobel Prize winners, have submitted a memorandum to the French Academy of Science wherein they make the startling statement that more than 1,000,000 persons will die as the result of the harmful effects of radioactive fallout from atom bombs already exploded.

The memorandum was published as a routine report of the Academy and goes on to say that, in addition to the anticipated deaths, enough of the deadly substance known as Carbon 14 has already been spread by atomic experiments to cause 1¼ million abnormal births in the future. The memorandum also points out that Carbon 14 will continue to have serious hereditary and genetic effects for many generations to come inasmuch as the substance has a life of about 5,600 years.

The submission states that nearly 200 experimental atomic explosions took place between 1945 and the end of 1958, liberating energy equivalent to the explosion of about 180 megatons of TNT. A megaton is 1,000,000 tons. Since 1954 the scientists say that the quantity of Carbon 14 in the atmosphere has increased by 2% per year.

—*The Listening Post,*
Canadian Federation of Mayors and Municipalities,
November, 1959

Management of Quality Control

In the paper that follows, the author discusses many of the management implications which have arisen from the operation of formal quality control programs.

ANDREW GRINDLAY

All manufacturers have quality control in one form or another. At some stage in every process, someone examines a sample of the product and passes judgment on it. Most plants have inspection departments that inspect both incoming raw materials and outgoing finished product. Others, particularly if the product is such that defects are obvious, rely on the production people for inspection.

All too often the inspection department is an unpleasant one in which to work. A frequent cause of frustration of inspectors is their unpopularity in the plant. An inspector may be good friends with a production worker socially—they may both serve as ushers in the same church, may bowl together—but once in the plant, the friendship ceases and they become quasi-enemies. All an inspector has to do to stir up trouble is reject a batch of the product that the workman considers acceptable. If he uses a condescending manner in rejecting unacceptable work he finds he is resented. Or if he finds a machine producing poor work and conscientiously orders it shut down, he is inviting the wrath of the foreman. Sometimes an inspector rejects a batch of the product only to find that the engineering department steps in and orders it accepted because "the tolerances on that dimension are not important".

To accept products that are on the borderline between being acceptable and unacceptable results in censure from the inspector's superior, and perhaps customer complaints. To reject them often brings ostracism in the plant.

In some plants the ratio between indirect labor and direct is kept constant. When production workers are laid off, so are inspectors, thus, at times, putting a heavier burden on the remaining inspectors while still holding them responsible for the quality level in the plant.

Management, too, finds the situation frustrating because they are called upon to arbitrate disputes between the inspection and production departments, disputes that are bound to result in loss of prestige to someone. Disagreements arise when the assembly department finds that manufactured parts will not fit together, and they must shut down the line or repair the parts. "Inspection should have caught it" is the customary retort of the production department in such circumstances. Phil Carroll, Consulting Management Engineer of Maplewood, New Jersey reported in a speech to the Society for the Advancement of Management[1] that he had just completed a study at a plant where 75% of the time of the men on the assembly line was spent "fitting and filing". If customer complaints of quality pour in and the costs of inspection continue to climb, the situation is indeed a perplexing one. How then can management control quality without this disharmony and without incurring costs out of proportion to the benefits?

The answer lies in the establishment of a quality control program, properly installed, properly maintained. This paper contains some suggestions about how such a program might be established and maintained.

THE LEVEL OF QUALITY

Thomas A. Budne of Rath and Strong, Inc., Boston, Massachusetts[2], explains the reasons why

[1] London, Canada, November, 1958.

[2] "Statistical Quality Control Can be Made More Effective", *Industrial Quality Control,* December, 1958.

some companies do not derive full benefit from their quality control program as:

> the failure to secure top management interest, understanding, appreciation and support and, or because of, the failure to plan a really practical quality control program which convincingly establishes the fact that every dollar spent on quality control would bring about a substantial return in the reduction of existing quality losses.

Company presidents, asked about the quality of their products, ofttimes reply "Unequalled anywhere" or "The best money can buy". Such statements lead one to believe that the particular company has no quality specifications and is probably not spending the optimum amount on quality control. The quality level demanded by the customer and offered by the competitor provides a means of determining upper and lower limits to the economical quality level. To produce a product outside of these limits is not in accordance with maximizing long-term profit.

Professor J. M. Juran of New York University has been quoted in the *Wall Street Journal*[3] to the effect that

> each year the production of goods not up to specification costs $500. to $1,000. per productive worker. Half of that loss could be saved by quality control.

The difference between inspection and quality control is found in a description of their functions. *Inspection* means the gathering of information about the quality of the product, whereas *quality control* describes the laying out of the program including inspection and training, of reviewing customer complaints, reporting to top management on the quality level and making recommendations for changes. Statistics may be employed in analyzing data, in which case the whole program could be referred to as statistical quality control.

James L. Lundy[4] of the University of Minnesota, states that one cannot be sure that a batch subjected to 100% inspection contains nothing but good parts, or that a basketful of rejects consists of nothing but bad parts. He states further that studies have indicated that even good inspectors normally remove only 80% of the bad parts. He attributes most of the trouble to worker fatigue and day-dreaming. He concludes:

> Statistical quality control generally leads to a reduction in the amount of inspection activity, permitting each inspector to devote more attention to fewer, more varied, and more interesting quality problems. Furthermore, the system by its very nature emphasizes the inevitability of imperfection, rather than hiding imperfection under a mythical cloak of perfect quality resulting from piece-by-piece inspection.

[3]Reported in A. J. Duncan: *Quality Control and Industrial Statistics,* Richard D. Irwin, 1959.

[4]James L. Lundy, *Effective Industrial Management,* Macmillan, 1957.

STATISTICAL QUALITY CONTROL

Professors Wallis and Roberts of the University of Chicago have written a concise chapter on statistical quality control in their book *Statistics, A New Approach.*[5] A condensation of a part of the chapter is given below.

Statistical quality control is used for (a) process control, which aims at evaluating future performance, and (b) acceptance inspection, which aims at evaluating past performance.

(a) *Process Control,* determines whether a process is in a state of statistical control, that is, whether or not the variation is such as would occur in random sampling from some stable population. If so, the variation among the items is attributable to chance and there is no point in seeking special causes for individual cases. When the process is in control, if its performance is unsatisfactory the only remedy is some change in the process. But when the process is out of control, it should be possible to locate specific causes for the variation, and by removing them to improve the future performance of the process.

The object of process control is to evaluate items not yet produced. When the process is in control, it is relatively safe to predict the future items on the basis of past output. Process control does not aim at judging whether the process is satisfactory, only whether it is in a state of statistical control and hence predictable.

(b) *Acceptance Sampling* evaluates a specific lot of a product that is already in existence and about whose quality a decision must be made. This is accomplished by inspecting a sample of the product, using statistical techniques to infer from the quality of the sample whether the whole lot is acceptable.

MECHANICAL AIDS TO STATISTICAL QUALITY CONTROL

Charts and tables have been drawn up by commercial organizations to aid companies in getting started on their quality control programs. The titles often read "Quality Control Without Mathematics", and they undoubtedly are a great help when used properly. This proper use is to enable production

[5]W. A. Wallis and H. V. Roberts, *Statistics, A New Approach,* The Free Press, Glencoe, Illinois, 1957.

people with very limited knowledge of statistical methods to have the advantages of statistical quality control. The charts and tables relieve them of the necessity of making computations. These aids do not, however, set up the quality control program; all they do is facilitate the computations after the program has been properly designed to suit the company's individual requirements. It is essential that someone in the organization, either an employee or a consultant, have a sound knowledge of statistical concepts. Without this knowledge, the probability is high that the company will use the charts and graphs incorrectly.

PRODUCT SPECIFICATIONS

Before any progress can be made in establishing a quality control program the specifications of the product must be firmly established. Old blueprints should be updated, even though everyone in the plant knows the new tolerances. Wherever possible, characteristics should be quantified to facilitate judgment of them.

Job shops sometimes are asked to quote on a product in which the only specifications are a sample. The result can be confusion, because the sample does not show tolerances and without tolerances it is not always possible to determine the equipment to be used in making the product. A sketch should accompany the sample showing upper and lower limits of all dimensions (or at least the critical dimensions) plus other pertinent information such as surface finish.

DUTIES OF A QUALITY CONTROL DEPARTMENT

Ideally, the goal of a quality control department should be to eliminate itself. If it is performing properly, the responsibility will be passed on to the operating personnel. The main job of the quality control department is to train foremen and workers to be quality conscious and to give them the means by which they can determine if what they are producing is within the required quality limits. The responsibility for quality, then, is placed squarely on the shoulders of the operating personnel, thus eliminating the excuse "Inspection should have caught it."

N. P. Demos, Data Systems Engineer for the General Electric Company, Schenectady, New York expresses the opinion[6]:

> The (Quality Control) system should be operated by manufacturing people, principally operators and foremen, as part of their daily routine. It should not be solely a tool in the hands of a quality control specialist whose duty it is to advise the manufacturing people when and where they are out of control. To operate effectively and efficiently, the system should be directed daily by the management of the manufacturing people.

In addition to training the operating personnel, the quality control staff should also ensure that the gauges and other equipment used for testing are available to the production people and are in good adjustment. When a gauge becomes worn to the point that it is resulting in the machine operator's passing product of doubtful quality, it should be removed from him and given to the inspector. The man on the machine should always have the best gauge.

If the workmen are to do their own inspecting, what then becomes of the inspector? Initially he helps to train the operating personnel in the proper use and care of measuring devices. Later his role becomes one of a policeman, spot-checking batches of the product to determine if the operators are inspecting properly. New products require constant vigilance in their early stages of manufacture. Inspectors, too, are still required to inspect incoming raw material and perhaps, to give a final check to the finished product just before it leaves the plant.

The cost of such a program may seem exorbitant at first, but can more than pay for itself in savings of waste and rework and reduction of customer complaints. The largest cost is incurred by building an allowance for inspection into the piece rates of the operators. Some firms already have such an allowance in their rates but do not have the means of enforcing the inspection. The allowance then just becomes an "extra" for the worker. To police the inspection by the workman commands the full diplomacy of the quality control man. Ideally, the quality control man should inspect a random sample of a batch soon after an operation has been performed on it. If the percentage of rejects in the sample exceeds the allowable the whole batch should be returned to the worker for sorting and rework on his own time. This sounds heartless and unattainable, and during the initial stages of the program it will meet with resentment from workers who are accustomed to having only rejected pieces returned to them. This can be mitigated somewhat by having the quality control department sort the acceptable from the unacceptable, but with the workman or the operating department bearing the cost of the sorting.

Building inspection into the piece rates requires close collaboration between the quality control department and the time study department to determine correct allowances.

[6]N. P. Demos "The Master Control System," Paper presented at the New England Conference of the American Society for Quality Control, Albany, N.Y., Oct. 23, 1954.

REJECTION PROCEDURE

The manner in which the inspector rejects unacceptable batches makes a tremendous difference in the way in which it is received. Preferably the inspector should go to the foreman and show him the results of his inspection. If the foreman does not agree, the issue should be taken up the chain of command until it reaches a point where a decision is made that is satisfactory to both the foreman and the inspector. Care should be taken to ensure that when a dispute over quality is taken up the authority ladder in the operating department, that it climbs at the same time the chain of command in the quality control department. To require the inspector to defend his decision at several levels above himself is asking him to argue with a man who very easily could be his boss some day. To avoid this problem, the inspector should turn the issue over to his own superior as soon as it is passed above the foreman in the operating department.

Usually, however, the inspector will be able to convince the foreman that the batch is unacceptable. The next step is for the foreman to approach the workman who produced the batch and make arrangements for sorting and rework. Similarly, when an inspector finds that a machine is producing an unacceptable product, he should give the foreman the information and let him take corrective action. For the quality control man to step in and order a machine shut down is to arouse the ire of the foreman. He should always seek out the foreman (or his assistant if he has one) and let him take whatever action he deems necessary.

To identify each batch of the product with the workman who produced it perhaps requires extra segregation. With multiple-shift operation this means that before leaving at the end of his shift, each workman must assemble and set apart all his production so that a spot check can be made. This may require the use of additional tote boxes and storage space but it is necessary if absolute identification of batch and workman is to be made.

But the duties of the quality control man are not restricted to inspection. In addition to spot checking the product as it passes from one operation to another, the quality control man should help the workers to improve their quality and reduce the rejects. He can draw up control charts and teach the production people how to use them; he can help them to track down the causes of poor quality; and he can go a long way in making everyone quality conscious.

MANAGEMENT OF THE QUALITY CONTROL DEPARTMENT

The top management of the company must be in agreement with the goals of the quality control department if it is to succeed. Then the next step is the acquisition of a man to head up the program who is technically competent and who has had successful experience in some other plant. This is one area where competitors provide a wonderful training ground. This man must also be a manager, because he will have to direct the people subordinate to him, many of whom will have been with the firm for some time and who have rather definite ideas on inspection and specifications.

One firm known to the author encountered difficulty when they hired a quality control man from their major competitor. They made him subordinate to their chief inspector, and instead of revising the whole program, his duties were thus limited to gathering data and preparing graphs indicating the results found by the inspectors. To be effective the manager of the quality control department must have full authority over all inspectors, including the chief inspector, and any other people in his department.

The operating executive to whom the manager of quality control should report is another frequent trouble spot. Joseph Manuele, Director of Quality Control, Westinghouse Electric Corporation,[7] advises that the quality control department must report to the manager of manufacturing, thus giving him the same standing in the organization as the manufacturing superintendent.

Professor J. M. Juran,[8] of New York University, has a slightly different opinion. He believes that as time progresses there is a tendancy for inspectors to get increasingly tougher in their interpretation of the specifications in their anxiety to improve the quality of the product. This results in occasional and sometimes frequent conflict between the inspector and the shop. If the coordinator of the two, that is, the person to whom both the quality control and the operating departments report, is on a low level in the organization, there is less tendency for the foreman to feel embarrassed over a reversal of his decision than if the reversal is ordered from a higher level. That is, the higher the source of the decision, the worse it is for the foreman if he is judged wrong. The resulting tendency is for the foreman not to dispute borderline cases, some of which should rightfully be disputed. Conversely, says Juran, if the coordinator is at too low a level the tendency will be for him to favor the operating personnel when arbitrating disputes. Juran concludes:

> The first common supervisor of the operator and inspector should be at the lowest level of authority that is staffed with executives who reflect the

[7] *Industrial Engineering Handbook,* Edited by H. B. Maynard, McGraw Hill, 1956.

[8] Juran, J. M., *Management of Inspection and Quality Control,* Harper & Bros., New York, 1945.

> company's policy on the balance between the cost of quality and the value of quality . . . Each organization must decide for itself where is this lowest level of authority fully staffed by executives who can strike this balance. This decision involves consideration of the responsibilities given to the various levels, the extent of management checks and balances, management caliber, nature of the product and other related influences.

The difference in opinion between Manuele and Juran is not great when one realizes that the only individual to fill Juran's requirements might be the manufacturing superintendent, as suggested by Manuele.

STAFFING A QUALITY CONTROL DEPARTMENT

It takes a special type of person to be a good quality control man. In addition to having complete knowledge of the production process used in the plant, he must also be a salesman. Being able to sell quality to the workers and first line supervision is necessary, because until they are sold there can be no quality control. He must also be an educator, for after selling the need for quality he must train people in how to get it. He must be a diplomat. The manner in which he handles the many situations in which quality control conflicts with a worker's desire for volume can often mean the difference between success or failure of the whole program. Finally, the quality control man must be able to communicate. If he is unable to get his ideas across to the workers, a large part of his knowledge will be wasted.

Personnel in the quality control department should preferably be selected from among the operating personnel. Juran[9] even suggests that there should be a two-way flow between the operating department and the quality control department. This way, he suggests, both departments will retain appreciation of the objectives and problems of the other.

Someone in the department should have a good understanding of the mathematics behind the sampling techniques and control charts that are used. All members of the department should have sufficient facility with it that they can explain it to the workers in understandable terms. A good quality control man will avoid the use of terms such as "standard deviation", "attributes" and the like in the early stages of training the workers for fear of making them feel swamped.

The ethics of the quality control department must be above reproach. The members of the operating department must never get the idea that a quality control man can be bullied or bribed into a favorable decision. It must be known to all that the quality control man will always do his best to reach an honest decision.

Written job descriptions should be prepared. Everyone in the plant must know the authority and responsibilities of each man in the quality control department. The workmen must know that an inspector cannot order them to do anything; that he is there for the sole purpose of helping the operators to turn out work within the prescribed quality limits and thus save them from whatever penalty the company imposes for poor workmanship. The job description should also spell out the exact procedure to be followed in the event that a machine is out of control and neither the foreman nor his assistant can be located. Frequently the procedure is that the quality control man then orders the machine stopped. Provided it is carefully written in the job description and clearly understood by both the operating personnel and the quality control people, no trouble should result.

The foreman must never get the idea that the quality control man relieves him of any authority. Since the success of the program depends to such a large extent on the cooperation of the foreman, the quality control people should make sure that it is well known around the plant that the quality control man's work in any department is as an aid to the foreman, not to relieve him of part of his job.

To determine the number of quality control people required on the basis of some ratio to the number of production workers currently employed is a penny-wise, pound-foolish philosophy. Quality control men, properly trained, are not usually easy to find. Bearing in mind that a good quality control man will have had line operating experience, and will be skilled in inspection techniques and the use of control charts, considerable thought should be given to the training of a new man before laying off an experienced man. The number of quality control men required at any time should be determined solely by a careful study of the job requirements and the work load and not by the number of operating personnel in the plant.

COMPENSATION OF QUALITY CONTROL PERSONNEL

Where the inspection is performed by the operators, an allowance for inspection at prescribed intervals can be built into the piece rates. Where the process is such that it requires the use of full-time inspectors and on purchase and final inspection, an incentive system can in many cases be effectively

[9] *Ibid.*

established. The principal requirements of such a system are the same for any other job: (a) establishment of output standards and (b) some means whereby the accuracy of the inspectors can be measured. Frederick W. Taylor,[10] who pioneered in work measurement and incentives, installed an incentive system in a group inspecting ball bearings. The results were

1. Accuracy improved by two-thirds.
2. Work force reduced from 120 to 35.
3. Wages increased by from 80-100%.
4. Hours shortened from 10½ to 8½ per day.

CONCLUSION

Competitive pressures are forcing inefficient producers to the sidelines. As European and Asiatic countries become stronger, as labor costs in America increase incessantly, the time is rapidly approaching when management can no longer ignore the benefits to be derived from Statistical Quality Control. With today's high-speed machinery, if a process once gets out of control, large quantities of the faulty product can have been made before corrective action is taken if the company uses the out-of-date approach of manufacturing first and inspecting later.

It is a forward-thinking management that is organizing its quality control department now, training its personnel in statistical techniques and starting the long range program of quality consciousness in the whole organization.

[10]Taylor, F. W., *Principles of Scientific Management,* Harper & Bros., 1911.

SOURCES OF TAX REVENUE

As the Treasury calculates the federal revenue outlook in the 1960 fiscal year which began last July 1, no less than 82 per cent of the $79 billion projected revenue total will come from personal and corporate income taxes and other direct levies. The comparable figure for Canada is 54 per cent, for the United Kingdom 52 per cent, and for West Germany about 19 per cent. The Soviet Union, theoretically most interested in "equalizing" incomes, takes only 8 per cent of its revenue from income taxation.

On the other hand, the United States is the only major country that does not use general sales, excise, or turnover taxation as a main revenue source. Denmark and Sweden, with strong socialist parties, rely on sales taxes, excises, and customs duties for half their tax revenues. The United Kingdom derives almost 48 per cent of its budget revenues from sales taxation. Canada gets 46 per cent of its revenues from levies on sales. At the bottom of the list, the U.S. Government raises no more than 18 per cent of its revenues from special excise taxes (mainly those on liquor and tobacco), custom duties, etc.

—First National City Bank
Monthly Letter,
January, 1960.

Barriers to EFFECTIVE MARKETING RESEARCH

The effective integration of a marketing research department with a marketing organization is a most difficult job. The author describes some of the organizational road-blocks that can bar the effective utilization of marketing research, and suggests some solutions.

LOUIS HOLLANDER

Marketing research is one of the numerous "business sciences" that have become so popular over the last few decades. It has some of the aura of excitement and glamour associated with the field of advertising, and yet also appears solid and methodical because of its scientific approach. A marketing research department has become the mark of an enlightened and progressive management. Unfortunately, the actual use of this same department can often be most unscientific and unenlightened.

In various business publications there has been an abundance of articles on the importance of marketing research, and almost as great a number on the methods used by particular companies in greatly enhancing their own market positions. Consequently, it is not surprising that the managements of many firms are turning to this management tool to meet the increasing competition of today's markets, and to help prepare for the much-publicized competitive "sixties".

Notable by its absence in all these articles has been any concern for the problem of communication between the people doing marketing research on the one hand, and those using it, usually sales management, on the other. Indeed, most writers on this subject make the rather bland assumptions that in creating a marketing research section:

(1) its members will become aware of the many marketing problems, or that sales management will be able to outline such problems so that they can then be solved;

(2) that any suggestions or findings developed by the research section are in such a form that they can be of some use to sales management.

That these assumptions often do not hold water must be evident to most people in positions of marketing responsibility. It is precisely the fact that they do not hold that gives rise to unproductive research and a black eye for research in general. More often than not, it is not research that is at fault, it is the way in which it is used (or misused). One recently-published Canadian book has put it this way:

> . . . many research operations are grossly wasteful because they do not approach research through marketing problems. In many large companies the basic research objective—to answer marketing questions—becomes lost. Often a research budget is appropriated and people are hired, and in the ensuing efforts to keep the wheels turning and people occupied, the research function loses is close contact with marketing planning problems. This, in turn may result in the production of research that is not useful to anyone or for any practical purpose.[1]

This paper will be concerned with some of the reasons for this unproductive use of marketing research, and is addressed to the question: "what, if anything, can be done to improve the coordination of research and marketing to make the research more productive?"

BACKGROUND

In considering problems arising from the acceptance and optimum utilization of marketing research, it is useful to look back a few years in order to develop some perspective. It is perhaps not fully appreciated that the functions of marketing research — sales

[1]Leighton, D.S.R. and Thain, D.H., *Canadian Problems in Marketing*, Toronto: McGraw-Hill, 1959, p. 714.

analysis, evaluation of competition, measurement of territories, etc. — have always been carried out, and basically the work of a marketing research section is not new in concept. This work was formerly done by sales management; often the statistical data was gathered by the sales manager's own assistant. With the recent trend toward specialization, these functions became separated out from the day-to-day problems of the sales department, although the individual himself might still be part of the sales staff, and this work might occupy only a part of his time. Eventually, as the number of projects increased, a separate department might be formed with its own manager, although often he still reported to the sales manager.

Analogous to this evolutionary trend is the function of purchasing, which for many years was carried out by production management and still is in smaller companies. By establishing a separate purchasing department which was not involved in the day-to-day crises of the production department there was more opportunity for refining purchasing methods and thus for more efficient purchasing because of a greater chance to develop knowledge about the many different possible sources of supply. In the same way, by having a separate marketing research department, methods have been developed and refined for developing knowledge about the various possible customers, and a more objective analysis of sales methods has been possible.

The analogy between the purchasing and the marketing research departments has been useful in showing up some similarities; it is also useful in drawing attention to some differences. With purchasing, the needs for materials, supplies, or equipment are often initiated in the engineering or production departments. But once the requirements are presented to purchasing, it executes the procurement function, even though still with the approval of the others. With a marketing research department, on the other hand, once a study has been made the results are generally presented to sales management, and further action is out of the hands of the group that has done the study. This is most significant because while a purchasing department, after studying available sources of supply, can carry out its own recommendations, a marketing research section often has no control over whether the findings of its study are used or not. It often turns out that the evaluation of the research work is actually based on what or how much use is made of the research group's recommendations, and not solely on the quality of the work itself. It is clear that if reports are repeatedly read and filed away without further use being made of them, the existence of a marketing research department is not justified.

A GENERAL DESCRIPTION

Although a description of the scope of marketing research activities is a topic in itself, we shall briefly touch on the subject here in order to define the area of discussion.

Generally speaking, marketing research work involves the development and analysis of any information necessary for the formulation of a marketing plan. This plan can be considered under the following headings:

Product Policy
Packaging
Pricing
Advertising
Sales Promotion
Personal Selling
Distribution

The research could be:

(1) A study of the *Nature of the Market* - its size, present and future, the penetration of its various suppliers, and the concentration of the customers by size and by location;

(2) A study of the *Requirements of the Market* - products, preferences, prices, technological changes, technical service needs, etc., and

(3) A study of the company's *Market Position* - its penetration, whether increasing or not, its corporate image, why accounts buy or do not buy from it, the effectiveness of its advertising etc.

This paper considers marketing research to be concerned with the study of any and every aspect of marketing. But the research operation itself is generally in no way responsible for the making of decisions, and has no control (although perhaps some influence) over the implementation of its own recommendations. It is a strictly a "staff" operation.

ACCEPTANCE OF MARKETING RESEARCH

Throughout industry there is little question that marketing research has become an established business function, and is widely accepted as having major contributions to corporate management. This is in spite of the fact that Motivation Research, one of the methods used, has received rather unfavourable publicity in the press, and there have been a number of books published proclaiming the evil "manipulative" implications of analyzing the consumer's buying motives and habits. There have been many surveys showing that the number of companies establishing separate marketing research departments, albeit under a variety

of titles, has grown considerably over the last 10 years, and this is a real testimonial to the acceptance of the concept of marketing research.

Some of these surveys have shown that although top-level management has been impressed with what can be done by marketing research and often has established a department to do this kind of work, those members of sales management (probably at a lower level) who must work with the new department seem to have much difficulty in fully utilizing it. The result is that the members of the new department feel that their reports are just filed away, with little action being taken on their recommendations. It is not uncommon to hear a member of new marketing research department complaining that those men that are in sales management are reluctant to place confidence in his findings, particularly when contrary to their own opinions which have often been developed over many years of experience.

One survey done by Richard D. Crisp, and published by the American Management Association[2] lists some of the factors in this apparent resistance facing marketing research analysts:

Fear

—Fear research will infringe on their decision-making function.

—Fear research will usurp executive job responsibilities

—Think marketing research people want line jobs or at least authority. Tendency to keep them "within bounds".

Limited Application

—Restricting marketing research to narrow limits

—use only as a last resort

—Use only to verify or confirm executive opinions

—Requests at eleventh hour make it impossible to do adequate research. Surprisingly enough, this seems to be deliberate in some cases.

—Lack of proper communications as to purpose and scope has created problems

Other

—Too involved in day-to-day problems, or in pressure of other work to understand and apply research findings

—Sales force does not have time to use information extensively

—Marketing tools supplied salesmen and field managers, but not used

—Results of marketing research bottled up. Not made available to subordinates in a position to act upon them.

These resistances are met particularly when the department has been established less than five years. As can be seen, the complaint that applies most often is "limited application". Fear is also felt to be another major factor, and it seems reasonable to assume that the attempt to restrict marketing research, or to make little use of it, follows from this fear.

Although this resistance is real enough, its existence is somewhat of a paradox. Marketing research is a staff function, and its whole purpose is to be of service to management, usually in sales but often in other departments as well. Consequently, if its findings are only used to a limited extent it is not fulfilling its purpose. Furthermore, there exists a real problem when the very people who stand to gain most from marketing research appear to fear it in one way or another.

A POSSIBLE EXPLANATION

The list above having been drawn up from a survey of marketing research departments, it is not surprising that it directs the blame for the limited use of research findings at other departments and other executives. However much of a platitude it is to say that some responsibility usually lies with both sides, this fact is sometimes overlooked. Part of the fault, no doubt, also belongs to the marketing research department.

As the function itself is relatively new, the members of such a department are often young, having been with the firm less than 10 years and frequently less than five. They have learned their techniques in other companies, other divisions of the same company, have not long been out of school; under such circumstances, one might expect sales management to be a little wary of suggestions pertaining to their own jobs, particularly when these come from individuals who are several years younger and who have little or no experience with the company's particular sales problems. This is further aggravated, unfortunately, by the practice of some firms of using the market research department as an initial training ground in marketing for recent graduates who have recently been hired, with the result that the department lacks status in the organization. This, of course, also raises the question of whether it is better to get people to do research who have had selling experience and then teach them marketing research methods, or else hire graduates of courses in marketing research, and then give them

[2]Research Bulletin, No. 35, *Marketing Research Organization and Operation: A Survey of Company Practices*, by Richard D. Crisp.

experience in selling before asking them to do any research at all. This is a problem which deserves extensive discussion in itself. However, at this point it is sufficient to say that the best work and most productive kind of working relationship can be expected when the researcher had had some experience in the sales department, as well as training in the methods of marketing research. This combination of skills and experience is unfortunately all too rare in business today.

The risk of limited acceptance of research becomes even more significant when one considers that in addition to the fact that the analysts often do not possess stature in the organization, the members of sales management who receive the reports have generally not had experience with marketing research itself and may need convincing as to its real value. This means that when a new marketing research department is established, although some degree of resistance to its recommendations is not necessarily a foregone conclusion, the risks are considerable that because of the initial lack of knowledge of the analysts themselves and the methods they use, there will be a lack of confidence in the department's findings.

In view of these possible risks, it is unfortunate when members of a newly-formed department present reports written in a somewhat pedantic manner, making recommendations that do not take into account sufficiently the past experience of sales management. All too often, market research analysts appear solely concerned with turning out reports, and with supposedly "correcting" the company's sales practices, even though these practices may have been established through many years. Impressive as endless tables of statistics might be, they are of little use to anybody if they are not closely geared to the existing marketing problems the company is facing. The result is clear. The latent lack of confidence in the new department becomes a reality and subsequently little use is made of it. This lack of understanding of a company's sales problems is a common fault of market researchers, unfortunately.

Part of this problem, then, can be blamed on a management which staffs a department with statisticians or with untrained recruits and expects them to do marketing research. Much can be said in favour of statistical work, as with using marketing research somewhere in a man's training. But productive *administration* of research and analysis can not be done by a mathematician, but by a marketing-oriented man. In addition, since marketing research, as defined earlier, "involves the development and analysis of any information necessary for the formulating of a marketing plan", this department is being misused when sales management asks it to define its own sales or marketing problems, and in essence, develop the marketing plan. Marketing men must develop the questions which they want research to answer, and then must be prepared to use the results. This requires much more active knowedge of and interest in research on the part of marketing men than has heretofore been the case.

A SOLUTION

The above discussion has dealt briefly with the responsibility of a marketing research department for the possible lack of acceptance of its work, and has tried to present the reasons why sales or marketing management does not always immediately appear as receptive as it might. It should be reiterated here that it has been assumed that management is in favour of using marketing research, even though it might, as discussed, subsequently make little use of it.

The fundamental causes of unproductive use of research are two in number—lack of confidence in the research department itself, and lack of knowledge concerning research on the part of marketing management. There must therefore be two things which management must strive to do if it hopes to find research used productively:

(1) It must try to generate the confidence of sales and marketing management in the researchers themselves;

(2) It must try to develop the familiarity of marketing management with the methods used by the analysts, and so instill confidence in their results.

In essence, this means that the value of the new department must be actively sold to sales management. Rather than be in a hurry to turn out impressive reports, the analysts must be encouraged to spend considerable time and effort becoming familiar with the operations of the sales department, and must acquire a real understanding for its problems. Analysts should spend some time on the road calling on customers with salesmen, and in some cases it may even be advisable to assign a new analyst to a senior salesman for a definite period of time. Also, the analyst should spend some time learning about the other departments of the company—accounting, production, research etc. Even though a marketing research department may be assigned to a sales department, it can only make sound research by approaching problems on a company-wide basis.

There is a risk involved in an analyst's getting too close to the operations of a sales department, and that is that he will be influenced unduly by day-to-day problems and will lose the perspective necessary to

make an objective analysis. One of the advantages of having a separate department do this work is that its findings are more likely to be unbiased than when the work is done by the sales department itself. Care must be taken not to eliminate this atmosphere of detachment while the researchers are learning all about the problems facing salesmen.

Once sales management has seen that the marketing research analysts have developed some understanding for sales problems, they (sales management) will be much more willing to discuss these problems with the researchers.

However, this leads to the second and more difficult stage in the development of good communications. An awareness must be developed in the other departments of what marketing research can do for them. This may seem simple, since much of marketing research is but an amplification and refinement of what has been done in other forms for many years. Also, most executives have read some of the many articles on this new business science in business publications. However, it is often difficult for them to see how these methods can be applied to their own circumstances, and there is often a lack of enthusiasm in using such methods.

Ideally, one might expect the sales department to bring to the marketing research department any problems which require analysis. However to do so requires respect for, and understanding of, marketing research itself. All too often this approach leads to a situation where the new department finds itself with nothing to do, and so begins to make market surveys on its own initiative. Doing of work on one's own is not necessarily a bad thing, once the analyst doing it is familiar with the company's marketing problems. But if he is not, he can turn out a formidable report, full of very interesting information, but which does not fill the needs of sales management. Consequently, the report is read, complimentary remarks are made, and it is filed away into oblivion.

Initially, the analyst must show the sales department in what areas he can be of help. He must be able to pinpoint and define existing problems which he can help to solve. But he can only do this if he has gone through a state of orientation or "size-up" in which he sees and learns to appreciate what is going on. Probably, while in the field making calls with a salesman, he himself can isolate areas which could be looked at by the marketing research department, and he can then later suggest to sales management that this be done. This in turn relieves the burden on sales personnel of initially having to present and define such problems themselves, and lessens the risk of having such research being requested without it being really wanted.

Throughout this period of time when the marketing research department is being established as a separate entity, the problems incurred are really more of an organizational nature. Sales personnel, with some justification, often fear and resent a challenge to the manner in which they have been running their department for many years. It is difficult for them to see research as a means of improving their own and the company's position by helping them make better decisions, based on fact rather than on opinions and personal bias. Rather, marketing research is sometimes regarded as a threat, particularly as it seems to infringe into every aspect of one's responsibilities.

In this light, it is easier to understand the resistance met by new research. Perhaps, also, it is easier to see why the advantages of marketing research must be sold to the sales department. Indeed, as in most staff functions, the analyst must first sell himself before he can be of any use at all.

CONCLUSIONS

Marketing research is now widely accepted as a staff function that can be of considerable help in the making of sound management decisions. Because of the fact that it is concerned with the gathering of information necessary to make these decisions, it is understandable for an operating man with little experience with this function, to fear that it poses a threat to his authority and stature in the company. Furthermore, it is reasonable to expect resistance to recommended changes in methods which have become established over many years of experience, particularly when they come from individuals having little apparent understanding for the many problems facing sales management.

Therefore, it is essential that a newly-formed marketing research department be made up of analysts who make a point of becoming as familiar as possible with the problems facing the sales department, and that they spend most of their time initially in showing that theirs is a staff function which can be of considerable assistance. Essentially, there must be a close working relationship between the sales department and the marketing research department, and the burden of establishing this on the analysts in the newly-formed department.

Freight Rates and Transportation Costs

— comment and rejoinder

In our winter issue, Dwight R. Ladd discussed Canada's freight rates problems in light of recent research findings by a group of Harvard economists. In this paper, Professor G. W. Wilson comments critically on the conclusions of the earlier article. His comments are followed by a rejoinder from Dr. Ladd.

G. W. WILSON

Carlyle once remarked that if a parrot were taught to respond "supply and demand" to all questions he would be considered a first-class economist. Something akin to this is now occurring in the field of transport economics. When someone now asks what is the most important policy change required in our transportation system, the typical transportation economist responds, to change the metaphor slightly, like a Pavlovian dog with the statement "rates must be based on costs", "rates must be based on costs". As a consequence, the alternative rate-making principle, "value-of-service pricing", is being relegated to the limbo by most persons interested in this area. Worse still, having made the *ex cathedra* pronouncement, many economists pack their bags and leave the committee room apparently in the belief that it is up to the statistical grubbers to measure transport costs.

I should like to argue two points: (1) value-of-service pricing for railways is indispensible, even in the contemporary environment and (2) the cost principle of rate-making is beset with numerous conceptual problems which render its application a most complex and fundamentally arbitrary procedure over and above the statistical problem of cost measurement.

VALUE-OF-SERVICE PRICING

Value-of-service pricing (or "charging what the traffic will bear") is frequently mistaken for rate-making according to the value of the commodity shipped. For example, Ladd holds that value-of-service pricing "relates transportation charges to the value of the commodity being transported".[1] So considered it is not only a policy to be abandoned, but is downright foolish in the face of intercarrier competition. If, for example, the railroads had a complete monopoly, then considering the value of the rail service only in terms of the value of the commodity would not lead to serious traffic losses and would in fact be precisely analogous to the theory behind the progressive income tax—i.e. setting rates on the basis of ability to pay. However, in those areas or for those commodities where alternative modes of transport are available, the *ability* to absorb revenues in excess of cost of service is distinctly limited. In such circumstances, though shippers may be *willing* to pay the higher rates based upon the value of the commodity, they do not have to if costs of shipping by another mode of transport are less. Perpetuation of "excessive" rates under these conditions simply leads to traffic diversion from the higher priced carrier.

But the important thing to note is that under competitive conditions, basing rates on the value of the commodity and ignoring one's competitors is *not* value-of-service pricing. This is simply a *misapplication* of the pricing principle and, though common enough, does not reflect upon the principle itself: rather it reflects upon those who attempt to employ it.

Value-of-service pricing then needs to be correctly understood before we cast it aside in favor of some other criterion. Strictly speaking, the principle is simply an example of the theory of (third degree)

[1]D. R. Ladd, "New Light on Transportation Costs", *Business Quarterly*, Winter, 1959, p. 220.

price discrimination presented in most textbooks in intermediate economic analysis. In less technical jargon, it involves setting rates for each customer (or commodity class) so that the net receipts for each shipment are maximized. As such it is perfectly general and not limited to questions of the value of the commodity. In fact, it involves pricing on the basis of the demand schedule facing the particular transportation firm, and this is influenced by many factors in addition to value of the commodity. Other things being equal, the value of the commodity would be determining, but other things have not been equal during the transport revolution of the past three decades. In particular, the rise of alternative transport media with varying service features and rates has had the effect of lowering the level of the demand schedule for rail transportation and increasing its elasticity over a wide range of commodities. This in turn has tended to lower the value of rail service to those shippers having alternative transport facilities available. As a consequence, the rather close correlation between value of the commodity and the value of *rail* transportation service which existed when and where the railways had a virtual monopoly, has broken. As competitive pressures intensify, the gap between the two will continue to widen.

All of the foregoing is familiar to anyone with a knowledge of the theory of price discrimination, and I shall not belabour the point further. The important point to be emphasized is that the principle is still perfectly valid and ought not to be discarded solely because it is frequently misinterpreted and misapplied. Furthermore, as I shall argue below, it is the only feasible way to price rail transportation; hence proposals for abandonment of the policy in favour of cost of service are singularly inappropriate.

THE PROBLEM OF COSTS

One of the first problems in analyzing costs is to determine the "thing" or product to be costed (i.e. the item to which costs are to be assigned). In particular, what is the output unit in rail transportation? Generally the *sales* unit runs in terms of ton-miles. That is, rates are usually quoted in cents per 100 lbs. between various points or for varying distances and these can readily be converted into prices per ton-mile. But it is clear that this is not an appropriate *output* unit for railways. Rail plant and equipment is simply not geared to production in terms of units so small as a ton-mile. Though there is a wide range of opinion regarding the most appropriate output unit, is is nevertheless generally agreed that a vast gulf separates the sales from the output unit.[2] This raises in a most acute form the problem of cost indivisibility. That is, suppose the output unit is construed as a train-journey. One can then ascertain the variable costs of a train-journey, but since any particular train-journey would involve the shipment of numerous commodities over varying distances, how can one allocate the variable train-journey costs among the items shipped, particularly when it is recalled that the additional costs of moving an extra box car on a train already made up are negligible? The answer is, of course, that these variable output costs can only be allocated among the various units sold on some non-cost basis, and this implies value-of-service pricing. It is possible if enough assumptions are made (such as regularity of movement, whether the movement is back-haul or primary-haul and so on) to allocate costs with some semblance of "scientific" accuracy. But when the requisite number of assumptions have been made, the combined effect is to divorce oneself substantially from actual conditions. Thus we are left with the necessity of allocating costs (even those which vary with the output unit) among the sales units, and this cannot be done on a strictly cost basis. In other words, variable costs present no such problem of allocation where the sales and output units coincide. But where there exists a substantial discrepancy between the output and sales units, as in rail transportation, then the problem of indivisibility emerges. Notice that this is in addition to the problem of allocating overhead or fixed expenses which, as is well known, cannot be allocated to either sales or output units on a cost basis. Indeed, the typical rationale for value-of-service pricing is that where fixed costs are relatively high, this is a practicable way of making a reasonable allocation of the fixed expenses. What I am suggesting here is that the same justification holds for that other bundle of non-cost-allocable expenses, the indivisible costs. Since both fixed and indivisible costs are extremely large for rail transport, it is apparent that the role of value-of-service pricing (properly understood) remains crucial. Yet the policy of cost-based rate-making is frequently made with special reference to rail transport.

There is another problem area which needs to be discussed, namely the variability of out-of-pocket (or marginal) cost in transportation. Now out-of-pocket cost is often regarded as the lower level below which rates must not fall or, on occasion, there have been suggestions that freight rates should be based upon such costs. Clearly a cost-based rate structure requires a careful analysis of marginal costs. Yet, in reality, marginal cost in transportation is a most elusive animal.

We define marginal costs as those costs which would not have been incurred had the particular

[2]See George W. Wilson, "On the Output Unit in Transportation", *Land Economics*, Aug., 1959.

traffic in question not been carried. Thus marginal cost represents the increase in total cost divided by the increase in "output" (somehow defined!). For different items of traffic this ratio will vary, since it is hardly to be expected that all traffic between every pair of points will yield an identical ratio. Hence there is a variety of marginal costs for different types of traffic. Likewise the degree of temporal and spatial excess capacity will influence out-of-pocket costs. That is, the transport firm may have substantial excess capacity overall, in which case marginal cost would be lower than if operations were being conducted at or close to capacity. In addition, a transport firm may have excess capacity in one region but not in another. Hence marginal costs for the same traffic would be subject to regional capacity differences. In addition the degree of overall excess capacity as well as regional capacity variations will not remain static—marginal cost is thus variable over time, and in many instances is extremely variable.

There are further complexities. Marginal costs are avoidable, (i.e they are costs which would not have been incurred had the particular traffic not been carried). Consequently, their magnitude depends upon the firm's "time horizon". The longer view a firm has of the future, the greater the amount of costs which are avoidable. This means that marginal costs also depend upon how far into the future one cares to look.

Again, marginal cost depends upon whether the particular traffic in question involves back-haul or primary haul movement. Traffic which helps correct an imbalance involves fewer additional costs than traffic which augments or creates imbalance. Marginal cost likewise depends upon whether the particular traffic is a once-for-all movement, a sporadic offering, or one which will be offered with regularity over time.

It should also be mentioned that those who use the ton-mile as an appropriate output unit tend to ignore the fact that the cost for a given number of ton-miles is a function of the ratio of tons to miles and other factors such as speed. For example, 100 ton-miles may represent one ton moved 100 miles or 100 tons moved one mile, and (ignoring speed) there would be a substantial cost difference between the two since line haul costs differ from loading costs.

Nor do these complicating features exhaust the difficulties. However, I have dwelt upon these points elsewhere.[3] The major point of the foregoing is that even conceptually, marginal costs in transportation present substantial complexity and in particular it must be recognized that there is no such thing as *the* marginal cost for the whole transportation firm. Statistical analyses, such as those presented by Meyer *et al*,[4] simply mask this fact and cover up all the vagaries of circumstance which actually determine costs. To make specific policy recommendations on the basis of such statistical analysis is therefore decidedly misleading. It is apparent from the above discussion that highly aggregative cross-section data involving the accounting costs of a variety of transport firms cannot, except by accident, come close to being an accurate measure of what the economist means by marginal costs.

The crux of the whole matter is that many people in the field of transportation have taken over the conclusions from more general economic analysis and applied them, often uncritically, to transportation. The truth of the matter, however, is that there remain many empty economic boxes in transportation which need to be filled before the consequences of drastic policy changes can be assessed with any degree of assurance. I have no quarrel with the *logic* of cost-based rate-making, although whether to use short or long-run, marginal, average variable or average total cost remains a bone of contention. But as economists we must go beyond the mere recommendation and explore those features of transport costs which remain conceptually complex. To obtain empirical data which recognize and somehow account for the host of factors which influence marginal cost would require highly segmented data and considerable effort. Even with this, however, there would of necessity be a large number of somewhat arbitrary assumptions. Yet, I cannot see how ignoring the complications yields satisfactory results and I certainly cannot agree with Ladd that as a result of the Meyer study, there is "no question that for the first time, we have a basically sound and sufficiently comprehensive statement of the costs of the several forms of transportation".[5] The book by Meyer *et al* is outstanding in many ways but we should not be blinded by some of its serious weaknesses.

[3]See, for example, "Needed Changes in Railway Pricing", *I.C.C. Practitioners' Journal,* May, 1959. "The Weeks Report Revisited", *American Economic Review,* Mar., 1959 and "Current Criticisms of the Interstate Commerce Commission", *Current Economic Comment,* Aug., 1959.

[4]Meyer, Peck, Stenason and Zwick, *The Economics of Competition in the Transportation Industries,* Harvard University Press, Cambridge, 1959. The general tone of this work marks it as probably the best economic thinking brought to bear upon the area of transportation, but much is still left unsaid.

[5]*Op. cit.,* p. 220.

A REPLY TO PROF. WILSON

D. R. LADD

The statement that "rates should be based on cost" was not intended to mean that rates should either equal or bear a fixed relationship to cost. Cost presumably constitutes the floor for price. The ceiling is located at the lower of (a) "what the traffic will bear" or (b) the cost of the next highest-cost producer; and the undeniably correct objective of maximizing net receipts is obviously best served by pushing rates toward the ceiling. The traditional railroad pricing structure has tended to have value of service or "what the traffic will bear" be both ceiling and floor. To suggest as a substitute for this, another floor-ceiling at the other extreme was not my intention and to the extent that my original statements implied this, I am happy to have such an implication eliminated.

I completely agree with Wilson's second point that the problem of isolating the costs of specific traffic movements has not been solved. Indeed, it is doubtful that this problem ever will be resolved in a completely satisfactory manner. The specific difficulties described by Wilson do not, I think, exhaust the list of conceptual and mechanical problems which are met in analyzing the costs of particular movements or particular segments of a railway system.

However, my previous observations were concerned with two specific areas of public and management policy: (1) the over-all structure of freight rates and (2) passenger and branch line services. In considering both of these problems at the policy level one surely is not concerned with the costs of individual movements or services which, as Wilson points out, would be influenced by the "vagaries of circumstance which actually determine cost." One need only be concerned with the nature of costs generally and to deny the validity of the Meyer data (and similar data developed by others) one must accept Wilson's tacit assumption that these "vagaries of circumstance" do not, when viewed as a whole, tend to cancel one another out.

My own view on this point is well stated in the following quotation from a letter received some time ago from Mr. S. W. Fairweather, formerly Vice-President, Canadian National Railways:

> "Actually, the apparent inconsistencies in marginal costing can be resolved if one takes into account the laws of probability. If we do so and have correctly assessed the background against which our chance factors are to be viewed, the figure which emerges is the most probable. It cannot be construed as being applicable to a singgle event but rather to a series of events of the same general kind of such number as to sink the aberrations in a statistical average."

Clearly, the two policy questions which I discussed each involve a considerable series of events. The average situation must be representative of the series of events and thus provides a sound base for the policy. implications which I stated:

(1) Railways are losing business to typically higher cost trucks. Therefore, the railways should lower their rates generally, toward cost.

(2) Most railway passenger and branch line services are extremely unprofitable. Therefore, the railways should move toward abandonment of these services.

THERE OUGHT TO BE A LAW

Legislation has never solved a basic problem in justice without the moral support of the citizen. Moral issues are resolved in mutual understanding, but the path to understanding takes a longer time than most of us are willing to spend.

Law, which defines principles and regulates social practice, cannot order our lives with abrupt defiance of tradition or shift in custom. This applies equally to economic, social and moral issues.

When some one, in vexation over the abuse of privilege, says "There ought to be a law . . .", it merely means that reason and emotion, or principle and tradition, are bumping heads. Legislation alone cannot take the selfishness out of the passion to win. Without a willingness to measure reason to circumstance, there can be no progress toward mutual acceptance of a peace formula in any sector of business, labor, or politics.

The one quality that motivates man's search for understanding is the desire to look at all the evidence, not just the arguments that support our own position. We need to separate our prejudices from our principles and open up the transoms of reason a little wider.

—Dun's Review and Modern Industry

Education and The Canadian Consumer

There is a revolution under way in the pattern of education in Canada. It is the author's thesis that this educational revolution will have a profound effect on consumer buying habits. In the following article, he describes the changes that are underway, and indicates some likely effects.

DAVID S. R. LEIGHTON

A major revolution in our social structure lies ahead of us in Canada, one which has tremendous implications for businessmen in all areas of management. There is no magic in predicting this social revolution. The principal forces that will shape the next decade are here with us now; the difficult part of the job is to sift through the mass of detail to separate out the fundamental forces at work.

What are these basic forces in Canadian society? There are several:[1]

1. Population Growth
2. Urbanization
3. Mobility
4. Income Growth
5. Education

These forces interact and are interdependent. But of them all, the most significant and yet, paradoxically, the most neglected is the last—education. We are aware of the great shifts in patterns of income distribution in this country and the United States in the last 15 years. It is my thesis that we are on the verge of a second major explosive shift in our living and buying patterns, this one occasioned by education.

PRINCIPAL SOCIAL FORCES

The way ahead has been clearly portrayed in the writings of two men. One is Professor Albert Rose, who has written lucidly and thoughtfully about the business of social change in Canada. The other is the provocative Peter Drucker, who has devoted most of his recent writings to the problems of managing the educated worker.

Dr. Rose has written a great deal about changing living patterns in Canada. The main points he has made run as follows:

- Canada's population has increased more than 50% in less than 20 years, primarily due to a combination of one of the highest birth rates in the world, and a continuously decreasing death rate. The result has been a tremendous growth at both ends of the age scale—in the very young and the very old. Now—for the first time in our history—roughly half the population must support the other half. That is, only about 50% of our population is in the productive age group, generally considered to include ages 20 to 59. This ratio will probably remain for the next two or three decades.

- At the turn of the century, nearly two-thirds of Canada's population lived on the farm. Today, two-thirds live in the cities, principally the 15 metropolitan areas. The Gordon Commission has estimated that about 80% of Canadians will live in cities in 1980, and two out of three Canadians will come from one of the 15 metropolitan areas.

- People are moving more often and farther than they ever did before. One study showed that six out of 10 Ontario families had lived in their present residences less than four years; only 15% had not moved since the end of World War II.

[1]For a concise and challenging analysis of many of these social trends see Albert Rose: "Canada: The Design of Social Change", in *The Business Quarterly,* Vol. XXIII, No. 4, Winter.

• We are all aware of the fact that incomes have been rising in this country. One estimate is that per capita purchasing power has doubled in 20 years. And even more significant than the overall increase is the shift in the distribution of income—from a situation of vast extremes in income and tastes, to a great mass market with income well above subsistence. This has been done at the same time that the work week has been significantly shortened, creating more leisure time.

Dr. Rose goes on to examine various other facets of our society—"moonlighting", the working wife, the standard of living. He also looks at some of the less pleasant facts of what he calls social breakdown—divorce, mental illness, illegitimacy, drug addiction, alcoholism, and the like. His ability to pick out the fundamental elements of social change in our society make stimulating reading for anyone in business in Canada today.

THE CHANGING EDUCATIONAL PATTERN

The great economist, philosopher, consultant and Jack-of-many-trades, Peter Drucker, has added another dimension to this picture of social change. Drucker has recently been looking at what he calls the biggest growth industry in America today—education. And he sees some things happening there that he thinks are highly significant for the future.

> For the first time in our history—or indeed in the history of any country—managerial, professional, and technical employees have become the largest group in our work force. They not only outnumber all other white collar groups, but they have even overtaken manual working groups, especially the machine workers.
>
> Equally significant, for the first time in our history, and again for the first time in the history of any country, people with a high degree of education—that is, people who have finished high school—constitute more than half our total labor force, including those employed in agriculture.
>
> This trend is certain to accelerate sharply. The number of managerial, professional and technical employees is growing at the rate of 10% each year—three times as fast as the total population . . .
>
> . . . Here is a basic change in the structure of this country and of our economy.
>
> . . . The shift in the structure of American society and in the jobs in American business is, in retrospect, the really fundamental event of these last years . . . I do not believe that I am writing about something in the future; the challenges and the opportunities are already here, and they demand thinking, understanding, and action from business and management.[2]

Drucker's main concern has been with the management problems in administering a better-educated work force, and this is certainly an important problem. Our educators have recognized many of the elements in this trend, but principally from the standpoint of their own financial planning. Overlooked almost completely in all of this discussion is a really significant question: what will be the effects of better education on the individual in his role *as a consumer*? Can we expect a different pattern of behaviour in the marketplace as more and more of our population become better educated? My contention is that the growing education of the consumer is of the utmost significance, and will be a dominant force shaping the events of the 60's and 70's.

Drucker, of course was talking of the U.S. But the same trend is becoming increasingly evident in Canada as well—although here as in other matters we tend to lag behind the U.S. This fact, however, merely indicates that we have much more growth ahead of us.

SECONDARY SCHOOL EDUCATION

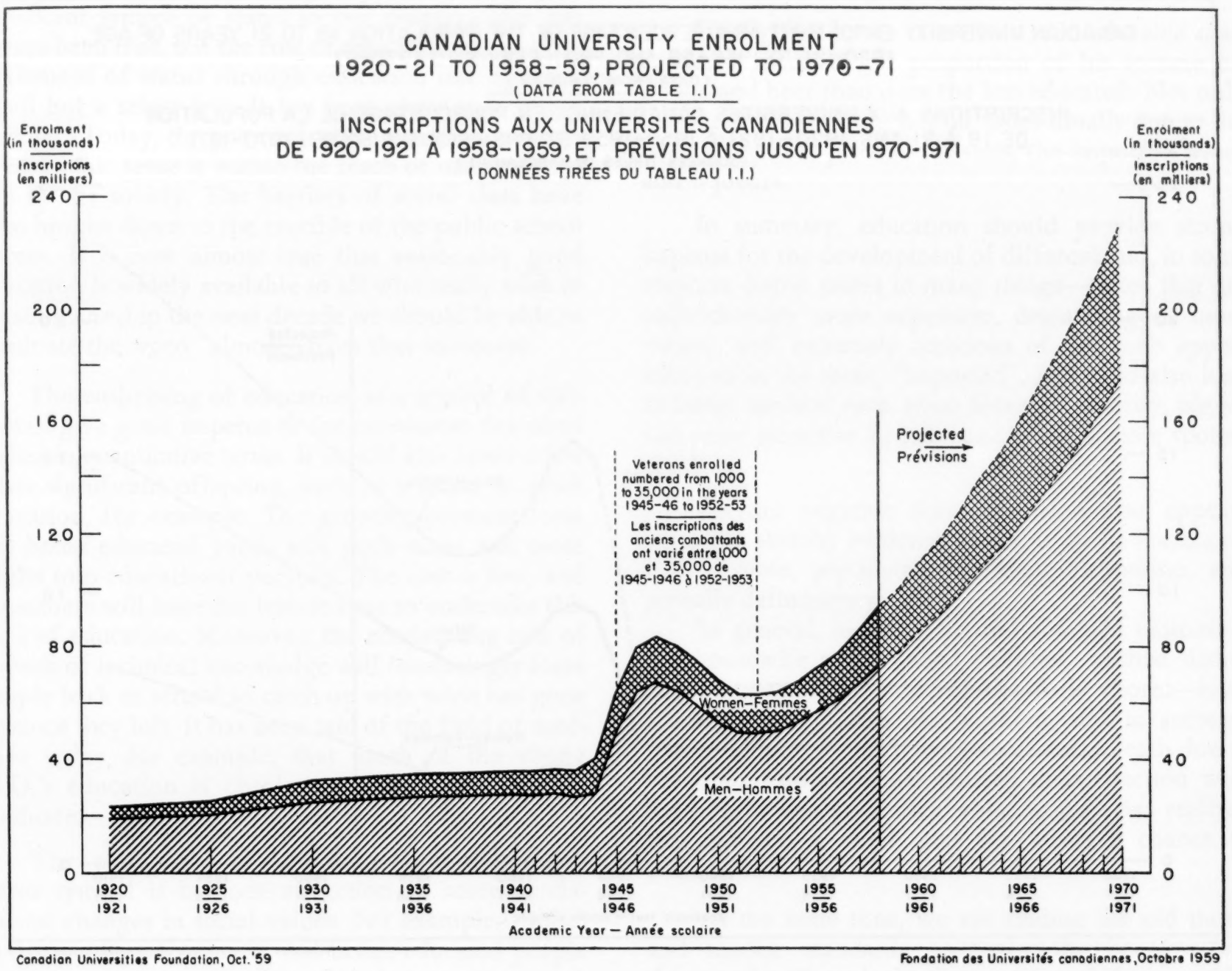
First, let's consider secondary schools. Between four and five out of every 10 Canadians in the age group 15 to 18 are enrolled in high school. In the United States, nearly eight out of 10 in the same age group are enrolled in secondary school, or almost twice the proportion that we have in Canada. One source has said that "the situation in Canada today is not very far removed from that which prevailed in the United States thirty years ago."[3]

Yet if we can use the U.S. experience as any kind of guide, we have a period of very rapid increase ahead of us. The proportion attending high school in Canada, while low, has been increasing quickly. And experts have forecast that this percentage figure will nearly double in the next 20 years. At the same time, the number of young people in our country will approximately double also—a combination of factors which makes for a particularly explosive rate of change.

[2] "Managing the Educated", in *Management's Mission in a New Society*. Dan H. Fenn, Jr., editor (New York: McGraw-Hill, 1959), p. 176.

[3] "Who Goes to University? English Canada" in *Canada's Crisis in Higher Education*, C. T. Bissell, editor (University of Toronto Press, Toronto, 1957). p. 81.

TABLE I



UNIVERSITY EDUCATION

At the university level, we have an even more dynamic situation. (Table 1).

There are several things in this table which merit attention. Note that the pre-war years are ones of steady, fairly slow population growth and an equally steady and little faster growth in university enrollments.

Then, after the war came the veteran rush, and for five or six years the veterans put a tremendous hump in the curve of university enrollment. Then they petered out, and we had a slight decline again. But note the significant increase in the recent rate of growth, and look where we are heading in the future! If anything, these estimates are on the conservative side, as shown by experience since the original estimates were made.

Perhaps more significant is the *proportion* of our population going to college. (Table 2).

This table shows many of the same characteristics as the previous one. Note the fact that not only are enrollments increasing, but the *share* of the eligible people going to college is also gaining fast—twice as fast as the rate of population growth.

The university-educated consumers will be coming on the market in really significant numbers in the next decade. At the moment, the university-educated market is still quite small in Canada. Whereas in the U.S. about 20 out of 100 persons in the university age group attend college, in Canada only about one-third as many—or six out of 100—go to college. But 20 years ago, only four out of 100 university-aged Canadians went to university, and one source has estimated that by 1964-65 nearly 11 out of 100 will attend college.

The result of these trends will mean that by the end of the next decade—that is, by 1970—we should have roughly six or seven out of every 10 people coming into the period of family formation—the main

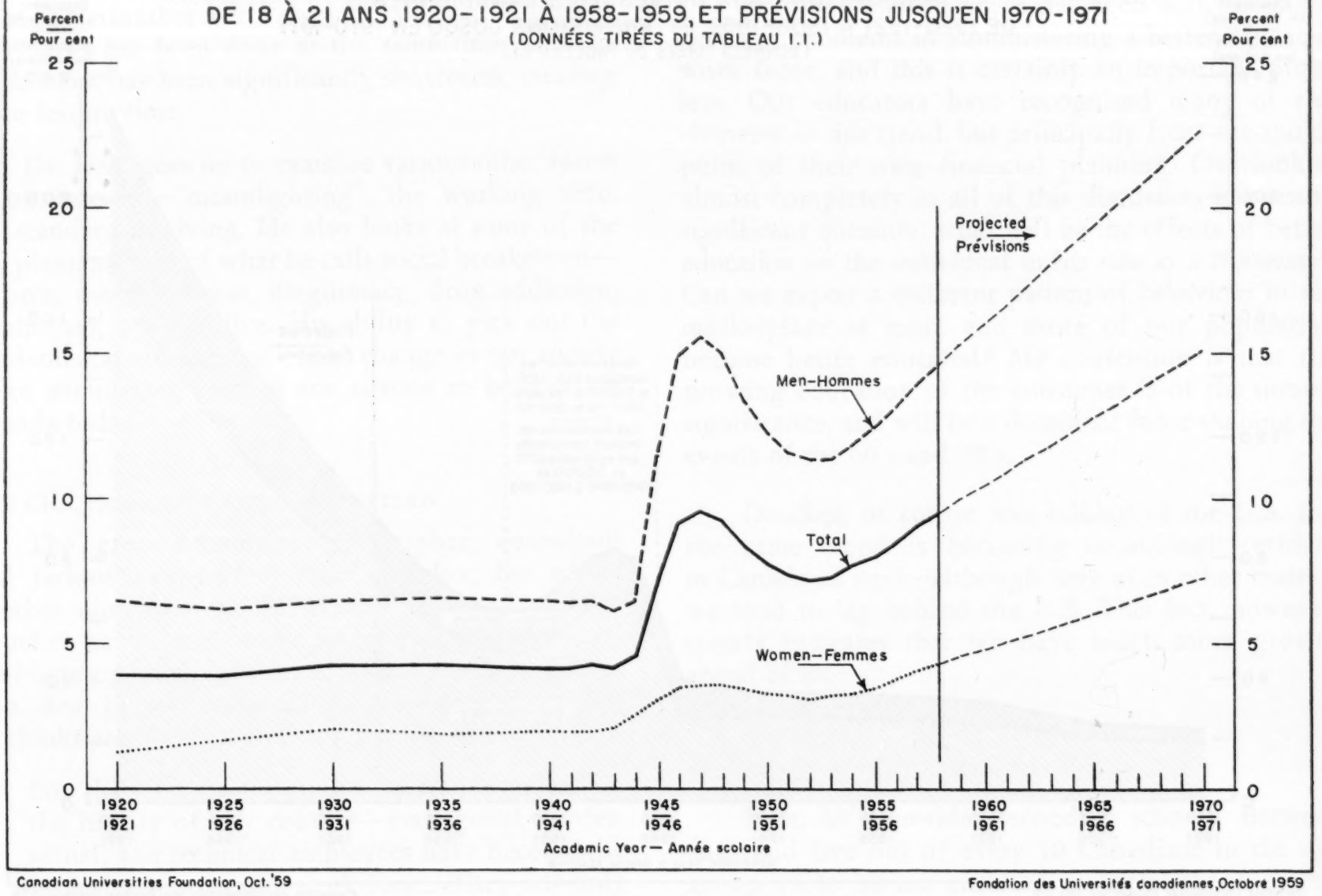
TABLE II

CANADIAN UNIVERSITY ENROLMENT AS A PERCENTAGE OF THE POPULATION 18 TO 21 YEARS OF AGE, 1920-21 TO 1958-59 AND PROJECTIONS TO 1970-71

(DATA FROM TABLE I.1)

INSCRIPTIONS AUX UNIVERSITÉS CANADIENNES EN POURCENTAGE DE LA POPULATION DE 18 À 21 ANS, 1920-1921 À 1958-1959, ET PRÉVISIONS JUSQU'EN 1970-1971

(DONNÉES TIRÉES DU TABLEAU I.1.)



Canadian Universities Foundation, Oct. '59

Fondation des Universités canadiennes, Octobre 1959

buying period of their lives—with a high school education. This compares with only four out of 10 at the present period. At the same time, 15 out of every 100 will come into the market with a university education, compared to only seven out of 100 at the present.

IMPLICATIONS FOR BUSINESS

What is the significance of these data to business? What will this educational explosion do to change living—and consequently buying—habits in Canada? What will this mean in terms of planning products, distribution, packaging, advertising, promotion, and selling, for example?

Let us examine the marketing implications. The educational boom's effects will be felt by business in several ways:

1. The *direct* effects will be felt, pretty obviously, by those firms which supply the educational industry—construction, real estate, furniture, books, stationery, supplies, athletic equipment, and the like.

2. The *indirect* effects will come about through the injection of increasing numbers of better-educated workers and consumers into the market. A number of studies have shown that people with more formal education tend to have different value systems than those of lower education—they live differently, think differently, and buy differently.

It is to this latter subject that the rest of this paper will be devoted.

CHANGES IN SOCIAL VALUES

The changes that will come about because of our educational revolution will be reflected in many of the economic and social trends described earlier. In order to reinforce some of the statistical evidence, recourse has been made to several studies that show how buying patterns differ by educational levels, notably LIFE magazine's truly monumental study of consumer expenditures.[4]

[4] *LIFE Study of Consumer Expenditures*, Vol. 1, conducted for LIFE by Alfred Politz Research, Inc., 1957.

One of the catalysts in this reaction we are breeding in education is the emergence of education as a significant symbol of status in our country. This has always been true, but the cost of education has put the attainment of status through education out of reach of all but a select few. It has been cheaper to buy a Cadillac. Today, the pattern is different. Education in an economic sense is within the reach of nearly everyone in our society. The barriers of social class have been broken down in the crucible of the public school system. It is now almost true that reasonably good education is widely available to all who really wish to obtain it. And in the next decade we should be able to eliminate the word "almost" from that statement.

The enshrining of education as a symbol of status will give great impetus to the movement described earlier in quantitative terms. It should also breed a few other significant offspring, such as a boom in adult education, for example. The growing pressure from our better-educated youth will push more and more adults into educational pursuits. The cost is low, and consumers will have the leisure time to undertake this kind of education. Moreover, the accelerating rate of growth of technical knowledge will increasingly force people back to school to catch up with what has gone on since they left. It has been said of the field of medicine today, for example, that much of the young M.D.'s education is obsolete almost as soon as he graduates.

The emergence of education as a significant status symbol is but one reflection of some fundamental changes in social values. For example, studies have shown pretty clearly that better-educated people devote a greater proportion of their incomes to such things as insurance, medical equipment and physicians' services; these things appear to assume a higher rank in the value-systems of better-educated consumers. Savings, in the form of insurance, investments and bank accounts also appear to rank higher in the value-scale of the educated consumer.

A second field to which the educated consumer devotes more attention is the home. Proportionately more is spent on the home and on home furnishings the higher the education level. Considerably more is spent on such things as baby food, baby equipment and items for the children. The educated consumer appears to be more home-centered and child-centered than the consumer with less education.

Proportionately, the better-educated male does not spend more on his own clothing, but he does spend significantly more on his wife's clothing. He also spends proportionately more on his automobile.

Education also appears to be correlated with recreation and expenditures on travel, sports, art, music, and the like. The book publishing business is another that should be riding this favourable trend.

Finally, but by no mean least, the educated man spends a much larger proportion of his income on liquor and beer than does the less educated. Not only does he consume more, but his tastes usually dun to the more expensive premium brands, the imported wines and liqueurs.

In summary, education should provide strong impetus for the development of different and, in some respects, better tastes in many things—tastes that are coincidentally more expensive, demanding of more variety, and extremely conscious of the snob appeal inherent in the term, "imported". It should also lead to better medical care, more financial security, bigger and more attractive homes—and perhaps more spoiled children.

On the negative side, education also appears from the sketchy evidence available to be correlated with divorce, psychiatric problems, alcoholism, and juvenile delinquency.

In general, many of the old accepted customs—the housewife who tended children, washed dishes and in general did most of the daily chores—have already gone. Wives are working, not to increase family income so much as to avoid early death due to boredom. Education has created dissatisfaction with the housewife's traditional role; woman has realized that she has a mind, and she wants a chance to exercise it.

At the same time, we are finding the old moral and modest standards going by the boards. And this trend will undoubtedly continue. Life is rapidly becoming more liberal with a small "l", relying less on faith, religion, dogma and the established order.

IMPLICATIONS FOR MARKETING

Finally, let us consider some of the implications of these changes on marketing management. Obviously, it becomes necessary to generalize, and this is a perilous occupation at best. Conditions will certainly differ from trade to trade and from firm to firm. Moreover, space does not permit considering the implications for *all* aspects of the marketing management job. But a few things do stick out as being predictable, with a reasonable degree of accuracy, from an analysis of the social trends at work in Canada.

For example, there does not seem to be any slowing down in the trend towards convenience goods. Certainly, higher education seems strongly correlated with the use of such things as frozen foods and baby foods, for example. There appears to be greater readiness to experiment and to try new methods of storage and

preparation the higher up the education ladder we go. So it appears reasonable to expect some pretty dramatic advances in processing and storage during the next 10 years.

Another field which will undoubtedly experience considerable growth is that of the private label. There is some evidence to indicate that there is a sort of inverse relationship here between loyalty to national brands and educational level—the better educated Canadian seems to go for the private label. Coincident with the trend to private labels should be greater integration, notably by the retailer reaching back to take over more and more processing and manufacturing functions. And there will be integration of another sort, as the big retailers get even bigger and, by and large, more efficient—the Stewart Commission to the contrary.

The trend to bigness in distribution will mean greater competition in many lines. It will mean narrowing margins, greater turnover and vastly greater sales productivity per dollar invested in facilities. Mass merchandising will extend into more and more industries, with much the same impact that the supermarket and the discount house have had in their fields. There will clearly be less stress on service and on personal selling. Some in our business bemoan this trend, but I cannot agree—surely man was designed for a higher level of activity than many of the things that go under the guise of selling today. The net result will unquestionably be lower costs and greater productivity in distribution—but not necessarily lower price "spreads".

These things are fairly predictable. Some see the '60s as marking some dramatic new developments in marketing, comparable to the introduction of self-service and the supermarket in the food field. New developments there certainly will be, but it is doubtful whether they will be so dramatic, although their impact will be none the less important.

It is usually customary in a paper of this sort to make one's assumptions at the outset. I would like to reverse this process and make my assumptions at the conclusion; partly because I feel that assumptions have a way of getting lost in the course of making predictions, and partly because I want to underline the importance of these assumptions to the pattern predicted.

My key assumptions are threefold. Obviously, one is that we will have no war; all predictions must surely make that assumption today. The other two are perhaps a little less obvious. They are, first, that Canadian businessmen discover the ability to compete economically with the Russians. We should know by 1965 or so whether we have this ability, for by that year Russia is expected to have emerged as a full-fledged world trader. We as a nation have not fully faced up to the implications of this fact.

The second condition essential to our progress is closer to home. And that is, that our political leaders avoid the sometimesoverwhelming temptation to tinker too much with the very complex and intricate piece of marketing machinery that operates in this country. As the Stewart Report so aptly put it, let's not throw the baby out with the bathwater.

PRICE OF SURVIVAL

To meet the Soviet challenge will require sacrifices. We cannot just go along with "business as usual" and hope to win. We have got to throw our economy into full-scale competition with the Russians. This is not an easy decision because realistically it means a departure from our present way of life.

We want to spend everything that is necessary for all of the programs to strengthen America—we want a balanced budget—and we want the same or lowered taxes. These three are incompatible. One of our first sacrifices must be a willingness to accept higher taxes, if necessary.

I do not agree with people who suggest that we must not push our economy to any point necessary to win in competing with the Soviet because we then might lose what has made our country great. If we do not impose the strains necessary to win, it is obvious that at best we will live in a Soviet-dominated world, and at the worst in a Soviet province.

All of us are strongly opposed to greater Government controls, but I would rather have greater control by our Government under our present system than to discover one day that business as usual had not been sufficient to win the battle.

With an economy that is producing twice as much as the Soviets, and is producing four times as much for individual consumption per capita, these sacrifices should not really hurt as much. But even if they do, we will all welcome whatever sacrifices are necessary when we realize the alternatives.

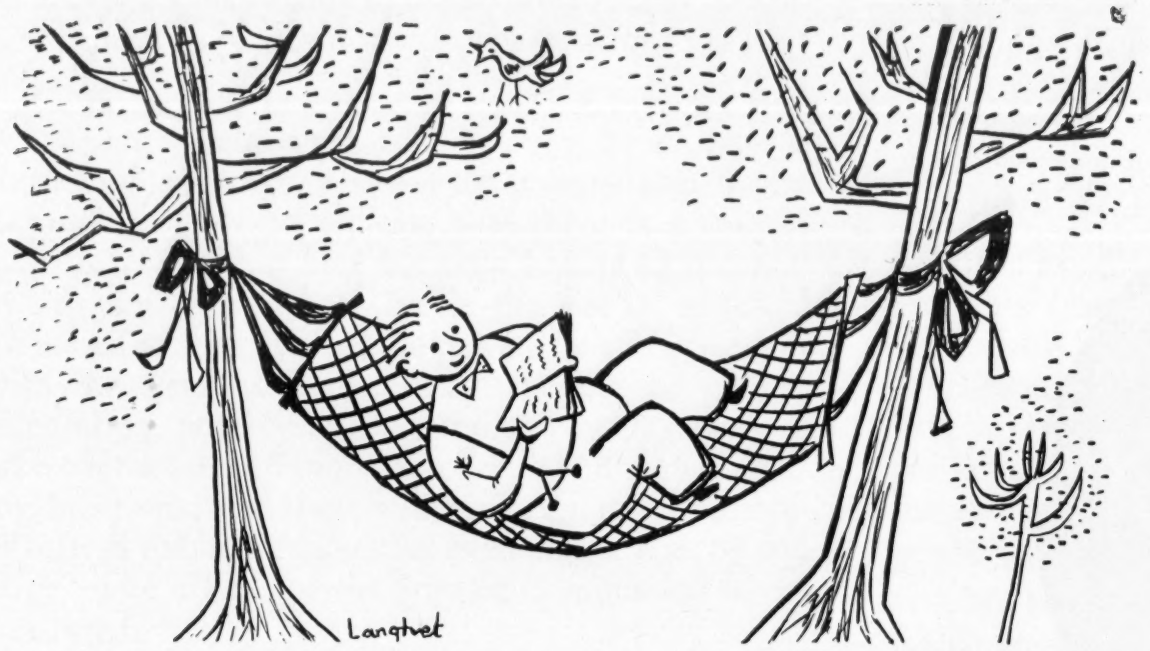
—Thomas J. Watson, Jr.

Publication

Did You Know -

—that in both good and bad times life insurance is one of the main ways of saving for most Canadians? Today more Canadian families own life insurance than own bonds, stocks, or savings deposits.

The CANADA LIFE Assurance Company



BOOKS FOR THE BUSINESSMAN

Reviewed in this Issue		*Reviewer*
CANADIAN MORTGAGES	H. Woodard	*John Graham*
SOVIET ECONOMIC WARFARE	Robert Loring Allen	*John G. Myers*
MODERN ORGANIZATION THEORY	Mason Haire	*R. K. Ready*
INVESTING FOR A SUCCESSFUL FUTURE	Thomas E. Babson and David L. Babson	*John Graham*
BANK OF CANADA OPERATIONS AND POLICY	E. P. Neufeld	*John Graham*
MANAGEMENT IN THE INDUSTRIAL WORLD	F. Harbison and C. A. Myers	*J. G. Myers*
ELEMENTARY MATHEMATICAL PROGRAMMING	Robert W. Metzger	*D. S. R. Leighton*

CANADIAN MORTGAGES

by H. Woodward, Williams Collins Sons & Co. 400 pp., $7.00

This book, even though it has shortcomings for the general reader, will be welcomed by anyone with an interest in the Canadian mortgage field. There are few books written on Canadian business, and this one fills an important gap.

The book itself is apparently intended to be a textbook for use in training mortgage administrators in the insurance, mortgage, real estate and banking enterprises. As such it should do an admirable job, As Mr. Woodard covers the whole mortgage operation, right from its early history through to the nature of bankholding and to current practice in the field. From the general reader's standpoint, this is probably one of the book's weaknesses. The author devotes a great many pages to the mechanics involved in granting mortgages and the problems involved for a company that is engaged in a nation-wide mortgage business.

Woodard has a wealth of knowledge gained in a lifetime spent as a mortgage specialist with life

Continued on page 121

Canadian Taxation and the Businessman

K. W. LEMON, F.C.A.

THE "DESIGNATED SURPLUS" PROBLEM

In his budget address delivered in the House of Commons on March 31 of this year, The Honourable Donald M. Fleming, Canada's Minister of Finance, stated that a comprehensive study of the "designated surplus" problem would be undertaken during the coming year and that he would welcome suggestions from all persons and organizations on this subject. This announcement will be welcomed by the Canadian business community and it is to be hoped that all interested persons will make representations to the Minister so that this most controversial subject will be assured a careful and comprehensive review.

The "designated surplus" concept which was established by the 1950 amendments to the Income Tax Act was intended to plug a loophole which prior to that time had made it possible for certain taxpayers to effect an indirect distribution of corporate surplus through a holding company in a way that would not result in the payment of any personal income tax. Transactions of this type were blocked most effectively by the 1950 legislation which "designates" the surplus of any subsidiary company at the time that control is acquired by a parent company. The legislation then provides that if a dividend is ever received by the parent company from the "designated" pre-acquisition surplus, the normal inter-company dividend exemption is lost and the amount received is subject to full rates of corporation tax.

As a result of this attempt to prevent a comparatively minor type of tax avoidance, legislation has been in effect for the last ten years which has subjected corporate earnings to triple taxation in cases where the pre-acquisition earnings or "designated surplus" of a subsidiary company are ultimately distributed to the shareholders of the parent company. While Canada's tax policy has imposed double taxation on corporate profits ever since 1925 when dividends were made subject to personal tax in the hands of shareholders, protection against triple taxation was perviously provided, as dividends had always been permitted to pass tax-free between Canadian companies. This important protection against triple taxation was removed to a considerable extent by the "designated surplus" legislation.

Even more serious, however, is the effect of "designated surplus" in placing a barrier in the way of many completely proper business re-organizations and amalgamations and in granting a tax preference to foreign corporations in the acquisitions of existing Canadian companies. This latter result arises from provisions which permit a foreign purchaser to withdraw the pre-acquisition surplus of a Canadian subsidiary at a tax cost of only 15% in circumstances where a Canadian corporate purchaser could be subject to tax of 50% on the withdrawal of the same surplus. Canadian corporations, accordingly, have been placed at a significant disadvantage in bidding against United States and other foreign capital for the acquisition of existing Canadian businesses.

The proposed comprehensive review of these and other ramifications of the "designated surplus" problem can hardly lead to any conclusion other than the one already held by the Canadian business community. The "designated surplus" legislation has had adverse effects which are far more serious to our economy than the tax avoidance it was designed to prevent. When the study has been completed Canadian taxpayers will look forward to the elimination of the "designated surplus problem" by prompt legislative action.

Canadian Law and the Businessman

PETER V. V. BETTS

SUBSTANCE AND PROCEDURE

Metro. Woodworking v. Phales Inv. Ltd. 1960 O.W.N. 132 would be a difficult decision to justify to a layman. In that case a carpenter lost his case because he sued in the firm name (Metro. Woodworking) rather than in his own name (Solski). A businessman could hardly be blamed for being critical of the judicial process when such obvious preference is given to form over substance.

The Rules of Practice provide that "any two or more persons . . . being liable as partners may sue or be sued in the firm name . . .". Solski was a sole proprietor and thus, strictly speaking, the rule did not apply to him. The Rules of Practice also provide that "any person carrying on business . . . in a name . . . other than his own name may be sued in such name . . .". This rule clearly applied to Solski and he clearly could have been sued in the name of Metro. Woodworking, but for some reason the rule does not cover the position of Metro. Woodworking where it is suing instead of being sued. The Court held that the action should have been in the name of Solski instead of Metro. Woodworking and the carpenter appeared to have lost his case.

Solski then appealed to the Court of Appeal who held on narrow technical grounds that the order dismissing the case had been made by the wrong judicial officer, and was therefore void, and Solski was then back where he started. He then made an application before the proper judicial officer to have the case tried by a Judge of the Supreme Court and the defendant cross-moved to dismiss the action on the same technical grounds as before (action brought in the name of Metro. Woodworking instead of Solski). Both the application and the cross-motion were granted, with the result that Solski was once again out of Court—and this time for good as the rigid time limits prescribed by the Mechanics' Lien Act had expired and it was too late for him to start again in his own name. The merits of the case apparently were never considered.

This comedy of errors must appear mildly amusing to all but the unhappy carpenter, who presumably was only trying to obtain payment for services rendered to the defendant, and Solski might be excused for reflecting that the judicial system has emerged through the centuries to do substantial justice between the parties rather than to preside over a battle of wits between lawyers, especially where the battlefield is the narrow realm of form as opposed to substance. If, despite the foregoing, one is led to the conclusion that technicalities are unavoidable and rules have to be strictly interpreted, then reference may be had to Rule 183 which provides: "A proceeding shall not be defeated by any formal objection, but all necessary amendments shall be made to secure the advancement of justice, the determining the real matter in dispute and the giving of judgment according to the very right and justice of the case". This rule appears to have been so whittled away by judicial interpretation as to be practically meaningless today.

The situation referred to above, of course, is not to be confused with the case of a limited company which is a separate legal entity and may at all times sue and be sued in its own name and generally speaking, so far as practical, is treated before the Courts (both civil and criminal) as an individual in its own right. There are even cases on record of a company being convicted of manslaughter, as for example, where the company operated a railway and negligently caused the death of passengers by failing to keep a bridge in repair. The difficulty of punishment was overcome by imposing a fine instead of imprisonment. So far as we are aware no company has ever been tried for murder or sued for divorce!

One other interesting distinction between the treatment accorded to individuals and the treatment accorded to companies lies in what might be described as pre-trial oral examinations in civil cases known in this jurisdiction as examinations for discovery.[1] Each

[1]Since the time of writing, Examinations for Discovery of an officer of a corporation have been placed on the same form as those of an individual by order in council dated May 5, 1960.

(Continued on page 129)

insurance companies and with the Central Mortgage and Housing Corporation, where he is presently financial adviser. This knowledge he imparts to the reader, and the book contains many tips on how to run an efficient and effective mortgage-granting business.

This reviewer feels the book could have presented a stronger argument for uniform mortgage legislation across Canada and for adoption of the Land Titles System in all the provinces. The accomplishment of these would indeed be a forward step, but will only happen if people in Mr. Woodard's position keep hammering away at the inadequacies of the present situation.

It would also have been interesting to have had a critique from Mr. Woodard of the present state of mortgage lending and the role the government plays in this field. Certainly in the last 20 years there have been great changes with C.M.H.C. in the lending field, both as a direct lender and as a guarantor, and the reader wonders what trends have been established and how these will affect the future.

This book, then, will probably become *the* textbook in the field for training administrators and should be an excellent reference book for those who have a slight interest in the mortgage business.

—John Graham,
Lecturer, U.W.O.

SOVIET ECONOMIC WARFARE

by Robert Loring Allen, Public Affairs Press, Washington, 1960, 293 pages, $5.00.

Professor Allen has contributed another book to the stacks of recent publications on Soviet economic warfare. The book is based upon three years of research at the University of Virginia, and analyzes some of the considerations which must be dealt with in studying the subject: economic warfare, Soviet motivations and capabilities, and prospects for the future. It is a worthwhile book to someone interested in getting a broad look at this question. It covers in detail the Soviet record in Asia, Middle East and Latin America.

The worst situation that could develop from Soviet economic warfare, Prof Allen believes, is that the last stronghold of capitalism, the United States, would be reduced to a "fortress America" and eventually "tumble into the socialist camp." This would be done by the gradual domination of the economic, political and social systems of underdeveloped countries and, later on, the more advanced Western nations. There is little doubt from Professor Allen's study that these are the primary Soviet long-range objectives and that she will use every tactic, including her trade relations with other nations, to accomplish them.

Generally, Professor Allen finds that economic warfare is fought, and economic, political and social domination is achieved, by: 1)guaranteeing sources of supply, 2) guaranteeing markets, 3) improving the terms of trade, 4) denial, and finally, 5) economic takeover. He states that only two basic approaches exist, the "carrot" or cajolery approach, and the "stick" or coercion approach. In either case, the objectives are the same. By a step-by-step process of economic domination of other nations, the Soviet Union hopes to work itself into an increasingly-powerful economic and political position.

As an example of one of the areas in which Soviet activity is concentrated, Allen analyzes the Middle East. Until 1947, successful inroads were made into many of the countries in this area, with the exception of Turkey and Iraq. In 1955, the economic offensive was revitalized following an eight-year postponement, and particular emphasis was put on Egypt and the Arab states. To show the effectiveness of this offensive, Loring notes that Egyptian trade with the Communist bloc in comparison with total trade rose, between 1951 and 1957, from 9% to 47%. A large increase also occurred in the exchange of students, technical personnel and tourists in this period. In Loring's opinion, trading with the Russians has generally been frustrating for the Egyptians. Such things as poor products, bad service, double dealings on price and broken promises have angered the Egyptians to the point where they are now extremely wary of the Soviets. The danger, of course, is that like the husband's attitude towards his wife when he says,

continued on next page

"with all your faults, I love you still," Egypt and her neighbours may complain but continue to play footsie.

The central problem in its simplest form is to find a way in which Western nations and private business can combat the malicious trading activities of Russia and protect themselves from "tumbling into the socialist camp." The problem is aggravated by the structure of the Russian trading system, which is State-controlled and politically-influenced. It is not Allen's purpose to provide an answer. He does state that it cannot be done by the same methods and techniques used by the Soviets. Assistance programs, he suggests, should come from the combined efforts of all Western nations rather than just the United States.

—John G. Myers,
Lecturer, U.W.O.

MODERN ORGANIZATION THEORY: A SYMPOSIUM OF THE FOUNDATION FOR RESEARCH ON HUMAN BEHAVIOUR

Edited by Mason Haire. New York, John Wiley & Sons, Inc., 1959.

Any collection of articles, originally published separately or read as addresses, is bound to suffer in continuity and in uniformity of quality. *Modern Organization Theory* is a collection of articles and fits the general pattern.

The common denominators of this collection are that the papers (1) were first read at a symposium held by the Foundation for Research on Human Behaviour at Ann Arbor, Michigan, in February, 1959, and (2) are about some of the latest research and theory in the emerging field of organizational behaviour.[1] The list of contributors is impressive: Chris Argyris, E. Wright Bakke, Dorwin Cartwright, R. M. Cyert, Robert Dubin, Mason Haire, Rensis Likert, James G. March, Jacob Marschak, Anatol Rapoport, and William Foote Whyte. I doubt that anyone could assemble a list of 11 other "experts" about organizational behaviour to match the excellence of this list.

The nearly-exclusive thrust of these papers is toward communication of research methods, findings, and theoretical implications. The papers are not aimed toward "organization practitioners," i.e. administrators. The papers by William Foote Whyte—"An Interaction Approach to the Theory of Organization" —and by Chris Argyris—"Understanding Human Behaviour in Organizations: One Viewpoint"[2]—are probably the most closely rooted of any of the papers in the territory and problems of social organizations as practicing administrators in business know them. That is, they are trying to work with concepts that, to this reviewer, seem to have as much for the administrator who seeks to control organizational behaviour as for the researcher who seeks to gain more formal knowledge about it. Rensis Likert's paper—"A Motivation Approach to a Modified Theory of Organization and Management"—struck us as the weakest contribution in the volume; the paper reads very much like a commercial, not a descripton, for one research point of view. There are many points of excellence in most of the other papers—we liked particularly Robert Dubin's, "Stability of Human Organizations," and Mason Haire's, "Biological Models and Empirical Histories of the Growth of Organizations"—but readers had better be prepared to be wearing research-coloured glasses.

At the end of each of the papers is a bibliography of further references. Most of the bibliographies are excellent.

—R. K. Ready,
Professor of Bus. Admin.
U.W.O.

INVESTING FOR A SUCCESSFUL FUTURE

by Thomas E. Babson and David L. Babson, The Macmillan Company 1959, 312 pp.

This is a timely book which should be of interest to all contemporary investors, no matter how large or small. The book is directly aimed at young people who have their lives ahead of them. The authors make the point that in the last 20 years, with ever-rising income taxes and prices, people have to do some very astute financial planning if they want to save money and also have enough capital to retire in comfortable circumstances in their declining years.

[1]See the reviewer's "lead review" in the Winter, 1958, issue of the *Business Quarterly* for an amplification of this emerging field.

[2]This paper is an abbreviated version of Chris Argyris's latest book, *Understanding Behaviour*: Homewood, Illinois, The Dorsey Press, Inc., 1960.

Books for Businessmen — cont.

One of the biggest problems facing investors, both young and old, is their attitude towards investments. As the authors say, too many people have failed to adjust their thinking to the current investment climate, and look back with horror at their own or their parents' investment experiences in the thirties. They fail to appreciate the economic and social changes which have taken place in the meantime. Rising prices have significantly wiped out the purchasing power of the dollar and so have really made the "safest" investment (i.e. government bonds, life insurance annuities) the costliest, since there is no question that as long as the prices go upwards, the value of the investment declines. In other words, so-called safe investments to-day carry a great risk of loss of purchasing power.

To combat the influences of taxation and inflation the authors suggest that the only road the average investor can follow is to invest in growth stocks. They back this up with a long analysis of current trends in taxation, economic policy, the growth of markets and the expanding world markets. They define a growth stock as one whose sales increase at a faster rate than the national economy as a whole, and whose earnings per share move up more than the average of all companies.

The authors outline a number of industries that they consider to offer growth for the contemporary investor, and in this regard it would be difficult to disagree with them; for example, they suggest chemicals, electronics and energy stocks.

Investing for a successful future certainly does not contribute anything new or astounding to investment management. It does, however, bring forcibly home to the reader that he had better do some concrete planning if he is ever to accumulate a significant amount of

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capital. If the reader can follow their advice and pick growth stocks for the long haul and not worry about short-term fluctuations, then he may very well achieve his investment objectives. The only question the authors do not answer is how to decide when a growth stock is no longer a growth stock. This, of course, is crucial in investing, and this reviewer is still waiting for someone to come along with a logical answer to this question.

—John Graham,
Lecturer in Bus. Admin.
U.W.O.

BANK OF CANADA OPERATION AND POLICY

by E. P. Neufeld, University of Toronto Press, 1958 - 253 pp., $5.95

The first edition of this book was reviewed in the summer, 1956 issue of *The Business Quarterly,* but interest in central banking policy has been at such a height for the past year that this revised edition is worthy of further review. The book is one of a series on Canadian Studies in Economics published by the University of Toronto Press.

Dr. Neufeld originally did this study as his thesis work for his Ph.D. degree from the London School of Economics, and covered the period 1935 to 1954. In this present volume, Neufeld has incorporated changes in banking policy up to 1958, and has included his own comments upon them.

Neufeld traces the development of the central bank from its beginning to the present day, its relationship to the government, and its objectives. Then he critically evaluates what the bank has done and how it has done it through the varying periods of depression, war, inflation and recession that have been experienced. He ends the book with a chapter on what he sees as its

current and future problems in view of its past history and current trends.

To most businessmen the role of the central bank is a mystery. Neufeld presents an interesting and precise analysis of th Bank's operations in each of the different economic periods in which it has had to operate.

—John Graham,
Lecturer in Bus. Admin.
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MANAGEMENT IN THE INDUSTRIAL WORLD

An International Analysis

by F. Harbison and C. A. Myers, McGraw Hill, New York, 1959
$7.00, 413 pages

Management is considered by the authors to be an economic resource. In addition to the usual economic factors which must be present, such as land, labour, and capital, they conclude that a fourth factor, management, is an extremely significant variable affecting the rate of economic development in a nation. This basic concept is broadened and expanded through an examination of management in 12 countries. The last chapter explores the special case of foreign investment as a means of stimulating industrialization.

Management, as an economic resource, has the following common elements: risk-taking, planning and innovation, coordination, administration, control and routine supervision. These functions can be performed within a broad spectrum varying from intuitive knowledge and experience on the one hand to highly specialized "professionalism" on the other. The degree of professionalism associated with the management function varies directly with the size and complexity of the organization. As industrialization advances and organ-

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izations become more complex, management demands a better-educated and more professionally-oriented person. Some of the factors which create this pressure for higher-level management are an increase in the complexity of the marketing function, a tendency to move from a planned economy to a market economy, higher concentration of capital investment, and an increased pressure to innovate. Management, the authors state, controls the degree of efficiency of the labour resource, the productivity of the organization and, in large measure, the industrial development of the nation.

Managements, considered as "systems of authority", vary widely. The authors list four basic types: dictatorial, paternalistic, constitutional and democratic. Dictatorial management is a form whereby control and authority are largely in the hands of a single person. Paternalistic management is concentration of power within a family or individual; the attitude towards labour, in this case, is not "ruthless" but paternal. Constitutional management is management by government. Democratic management treats labour with greater equality and respect. The authors conclude that the system of management tends to change from dictatorial and paternalistic to democratic as industrialization proceeds.

These concepts, and many others which are discussed in the earlier part of the book, are not new. In this respect, the book contributes little to what is already known about management as a resource. The authors, however, attempt to apply these concepts to nations and to give the reader a way of thinking about management at varying stages of a nation's economic development. In this respect, the book contributes a great deal. The dangers of overgeneralization are quickly apparent. Can it really be said that any nation's management resources are "paternalistic"?

Books for Businessmen — cont.

The authors find three distinct groups of management: patrimonial, or family-oriented; political; and professional. Once again, nations or organizations can be said, in the authors' opinion, to fit into one or another of these three basic categories. Although management tends to become more professional as industrialization advances, in some countries such as Japan extremely rapid, and apparently successful, industrialization has taken place under the influence of a family-oriented type of management. This condition has probably continued to exist because of the large surplus of labour and the deeply ingrained paternalistic attitude of the Japanese people.

Many of the authors' findings have ideological significance. For instance, they find no evidence that power tends to be concentrated in a "managerial elite" in an advanced capitalistic society. Also they find that advanced industrialization develops the most favourable type of social relationships. Management's influence tends to become less authoritarian. The power of other groups, unions, consumers etc., tends to increase.

The latter part of the book is devoted to an examination of management in 12 countries. Egypt, as an example, is undergoing extremely rapid industrialization, and the authors find that "there is general agreement that at least half the present managerial personnel in Egypt lack the experience and training required for effective minimum performance." Although some countries have attempted to get around this problem by encouraging foreign ownership and control, Egpyt has assumed a policy of development from within. Egypt now has a nucleus of industrial managers who are energetic and receptive to modern technology. They are "professionally" rather than "patrimonially" oriented, and the fire of Arab

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nationalism provides a powerful stimulus to make industrialization a means of achieving economic and political independence. However, Egyptian management, in their opinion, has shown little regard for human rights and will undoubtedly exploit the masses unless closely controlled by the State.

All underdeveloped countries are utilizing the capital and management resources of the more advanced nations to speed economic development. However, the authors believe that nationalistic interests will result in pressures to expel the foreign influence as quickly as possible from the developing country. Could it be that there will be decreasing opportunity for investment in wholly-owned foreign subsidiaries? Will the pressure increase to return foreign management resources back to the countries from which they came? These questions are left to the reader.

J. G. Myers, Lecturer, U.W.O.

ELEMENTARY MATHEMATICAL PROGRAMMING

by Robert W. Metzger, John Wiley & Sons, Inc., New York, 1958. 246 pp.

This slim volume purports to be "an attempt to fill a need for an elementary description of several of the methods of mathematical programming", and it fulfills this purpose admirably. In it, the author attempts to bridge the gap between highly-technical mathematical discussions on the one hand, and over-simplified, over-generalized management descriptions on the other. He follows through in considerable detail three groups of methods - distribution, simplex and approximation. And he does it in such a way that even the non-mathematician can follow each step. Later chapters present examples of the use of mathematical programming techniques, the use of high-speed computers, and a description of some of the areas of application of these

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Books for Businessmen — cont.

techniques. These applications are all essentially in the production area, and include production planning, materials handling, stock slitting, and job and salary evaluation.

This is an excellent book for the businessman interested in learning more of this fascinating field. It requires little if any advanced mathematics, and it is written in layman's language. A relatively few hours at home in the evening with the volume would permit the reader to assimilate the essential concepts involved in these important mathematical tools.

D. S. R. Leighton
Associate Professor, U.W.O.

Canadian Law and the Businessman

party to a lawsuit is entitled to have his lawyer question his opponent at length upon the matters in issue. The answers are taken down in writing by a court reporter and serve three purposes—(1) they disclose the opponent's case and prevent surprise—(2) they can be used to refute the opponent's evidence at the trial where such differs from his evidence given on discovery—(3) the transcript can be put in as evidence for the party doing the examining. So far as companies are concerned an officer of the company is liable to such examination in the place and stead of the company itself but the examination itself cannot be used at the trial as evidence for the party doing the examining. Provided, at the trial the company abstains from calling the officer who has been examined the opposite party is for all practical purposes denied the use of the transcript at all. It is not even much use to prevent surprise since the officer, knowing that it cannot be used as evidence and knowing that he will not be cross-examined, becomes vague and evasive on discovery. A company to this extent is given a distinct advantage before the Courts.

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